COOPERATION IN AGRICULTURE

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To the farmers of the Grain Belt whose initiative, courage, and business ability made possible the present system of co-operative elevators, this book is respectfully and gratefully dedicated.

PREFACE

This book is the development of a set of lessons which were prepared for student use at the University of Nebraska. Some of the chapters have been used in essentially their present form for many years.

"From the concrete to the abstract" has long been recognized as a correct principle of good teaching. The major portion of this book, therefore, consists of stories of the organization and operation of cooperative associations for marketing various products in which Americans are interested. Of necessity, these stories are preceded by a definition of cooperation and a brief discussion of the principles which underlie successful business cooperation. A summary of the abstract principles is given near the end of the book.

Probably the simplest method of presenting a general survey of cooperative marketing to readers who know little about it is to give first a detailed description of the cooperative marketing of some one product which can be used as a type with which to compare the cooperative marketing of other products. If the need for cooperation in the marketing of this type product, the plan adopted, and the success attained are discussed quite fully, the descriptions of the marketing of other products can be materially shortened.

The cooperative marketing of grain was selected for use as a concrete type study of cooperation for the following reasons:

1. It has been successful for many years.
2. It is perhaps the most important cooperative movement in America.
3. Nearly all students at the Nebraska College of Agriculture, for whom these lessons were originally prepared, are interested in grain marketing and nearly all live in a community where there is a cooperative elevator.
4. More potential readers of a book upon cooperation are interested in the cooperative marketing of grain than in that of any other one product.

5. The author knows more about the marketing of grain than about the marketing of any other product.
6. The early history of cooperative grain marketing is so dramatic a story that it captures the interest of every student. It appeals to students' sympathies and to their imagination.

This book contains many quotations. A student of cooperation ought to know the opinion of many men upon mooted questions rather than the opinion of only one man. The author wishes his students to read Worrall's story in his own words, to read court decisions as rendered, to obtain the results of research as originally reported, and to compare the ideas of the men who have been interested in the development of cooperation. It is also hoped that the quotations will stimulate a desire for further reading.

"Cooperation in Agriculture" is not an encyclopedia of cooperation. It attempts merely to present the facts which the author believes are of the most vital interest to Americans. A discussion of many lines of cooperative endeavor, such as the credit associations of Germany, is necessarily omitted, although their importance is recognized. Students of cooperation can, however, find other books which treat quite fully of many topics of which the discussion here is inadequate.

The cooperation of many persons was required to make possible this book in its present form. Special recognition is due to R. M. MacCurdy of the California Fruit Growers' Exchange, Chris L. Christensen, A. W. McKay, and R. H. Elsworth of the Bureau of Agricultural Economics, United States Department of Agriculture, and G. O. Gatlin of Oregon State College, for reviewing parts of the manuscript and furnishing valued information. Acknowledgment is also due to Charlotte Hickman, Myrna R. Corns, A. W. Medlar, and Harold Hedges of the Department of Rural Economics, University of Nebraska, for assistance in compiling data and for many helpful suggestions.

H. C. Filley.

University of Nebraska,
Lincoln, July 12, 1928.

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COOPERATION IN AGRICULTURE

CHAPTER I

WHAT IS COOPERATION?

Cooperation, a Word of Many Meanings.—Cooperation is a popular word. Not only is it used by many persons, but it is used in a great variety of meanings. In order to discuss cooperation and cooperative organization it is therefore essential that we agree upon what cooperation is and what it is not, what it includes and what it excludes—in other words, that we define our term.

The word cooperation is of Latin derivation (*co* with, and *operare* to work) and means literally to work together. Webster (*New International Dictionary*) defines the verb cooperate as "to act or to operate jointly with another or others." A recent writer says, "Cooperation means so to conduct yourself that others can work with you."

If we accept the use of the word "cooperation" in this broad sense of meaning any united action, we need not be surprised to find it applied where other terms would be more appropriate. For example, if the grain buyers of a certain locality should meet and agree to pay a certain low price for wheat, we would be justified in thinking their action monopolistic even though they said it was cooperative because they were working together. We can hardly cover the trusts, combinations, monopolies, and "gentleman's agreements" of the business world with the popular cloak of cooperation. There may be a "united action" that is not cooperation.

Perhaps the best broad usage of the word cooperation includes only that working together in which the individual works not for self alone but also for the good of the social body of which he forms a part. He realizes that his working with other men in the carrying forward of a cooperative enterprise benefits himself and at the same time benefits his fellow cooperators. The motto, "each for all and all for each," may be accepted as characteristic of such cooperation. Under such a definition farmers cooperate when they exchange labor in threshing or shelling, or when they form an association to improve

their livestock or to hire a county agent. Town and country may cooperate in the construction of a community building or in deciding which evenings stores shall be kept open. Not only does each cooperator profit from such action but the entire community is benefited.

Some excellent examples of this type of cooperation are found in the early development of the county-agent movement. The idea was new, not all farmers saw the possible benefits that they might receive, and there was no possibility at that time of paying any considerable part of the expense from county funds. Various business men—railroad executives, bankers, merchants, grain dealers, and even the head of a large mail-order house—saw the opportunity to increase farm prosperity, and thereby indirectly to aid their own business. Had it not been for the cooperation of these far-sighted business men, the progressive farmers who first sensed the possibilities of the movement would have waited many years for a realization of their vision.

Cooperation Interested in Savings Rather than in Profits.—Cooperation is interested primarily in securing savings and not in making profits. The source of savings is different from that of profits even though both may result in added prosperity.

Savings may be defined as "economy in outlay, prevention of waste, or reduction of cost," and also as "something which is laid up or kept from being expended or lost." James J. Hill once said that the high cost of living was largely the cost of high living, in other words a failure to save. The primary purpose of the home garden is that of saving. The home canning of fruits and vegetables, which is practiced on so many farms, prevents waste and reduces the cost of living. The cooperative elevator, which reduces the cost of handling grain from the farmer's wagon to the terminal market, effects a saving for the farmer. We sometimes say that "the elevator made a profit" but the real fact is that it effected a saving. It probably made the same original charge as other elevators, but because of economic operation was able at the end of the year to return part of this charge to its patrons. We usually call such refunds "dividends," but they are dividends of savings, not of profits.

A profit is the "excess of return over expenditures in a given transaction" or "the excess of the price secured over the cost of purchasing and handling or of producing and marketing." The merchant must sell goods at a profit, else he could not remain in business. The farmer must in the long run receive more than cost of production for his crops, else he would be forced into some other occupation. There are, of course, times when the merchant sells goods

at a loss and when the farmer sells products below production cost, but neither one can continue to operate for very long without making a profit. It is noticeable that, as profits decrease, farmers, merchants, and manufacturers usually try to effect savings in the cost of operation. The men engaged in any kind of production who are able by economy of operation to reduce their production costs will in the long run make the greatest profit. This profit may be less than men make in other industries. For example, farmers have been particularly successful in reducing production costs in times of business depression, but even then agriculture has often suffered relatively more than some other industries which were less successful in reducing operating costs.

If a cooperative elevator company purchases grain from non-members it may be handled at a profit. Such a profit, however, is merely incidental to its major business which is the handling of the grain of its members. As will be discussed later, there is a growing tendency to differentiate very carefully between the profits arising from the business of non-members and the so-called "profits" that come from the business of members.

The Beef Ring is Truly Cooperative.—An excellent example of true cooperation in one of its simplest forms is the beef rings that are so common in many parts of the Corn Belt. Nearly all farm families like fresh beef, but no one family can consume any considerable part of a beef carcass as fresh meat in hot weather. Buying meat at the local butcher shop means that the farmer who raises the beef must pay his share of the overhead cost of maintaining the shop and often the cost of shipping the live animals to the terminal market and shipping the carcasses back again, in addition to the cost of slaughter. As nearly everyone will testify, these various costs raise the retail price of fresh beef to a figure that makes its regular purchase nearly prohibitive to a family by whom the cost of living must be carefully considered.

A beef ring is usually organized on a share basis. Twenty shares make a good basis for division. As not all families wish the same amount of meat, an opportunity for membership on a half-share basis is usually arranged. Two half shares are paired for the season, and sometimes these are subdivided into quarter shares. A twenty-share club will, therefore, usually furnish fresh meat to thirty and sometimes as many as forty families.

Each share is required to furnish a beef animal in its turn, the order being determined by drawing lots prior to the opening of the

killing season, which generally begins in April or May and runs as many weeks as there are shares. In this way each member knows in advance when he must have an animal ready for slaughter. If he has none on his own farm that are suitable, it is usually easy to purchase one of a neighbor. The half-share and quarter-share members decide among themselves who is to furnish the animal for slaughter, and the other member or members pay him their proportional share.

It is, of course, absolutely impossible so to divide twenty animals that each family will receive during the season exactly its proportional share of beef. It is customary, therefore, to keep a record of the weight that each family receives each week and at the end of the season to balance up any excess or shortage by cash payments. Double the price on the hoof is usually used as a basis of settlement.

A. W. Green, of Shenandoah, Iowa, who was employed by five beef clubs in 1921, gives the following description of his method of work:

"Between May first and October first I killed, dressed, and cut up some 183 head, thus helping to supply meat to about 250 families. It is a knack to be able to cut up the beef so that each family gets its proportionate share of roast, boiling meat, and steak. The heart and tongue always go to the share furnishing the animal. The soup bones and liver are divided among the different shareholders in rotation.

"I weigh the quarters as they are cut down, and by adding them get the weight of the carcass. Then, figuring a 20 per cent shrink, I have my total dressed weight. If I have a 500-pound carcass, for example, the shrink would leave 400 pounds. This would give 400 pounds of beef to be divided among the club members. In a twenty-share club each share would receive twenty pounds, each half share ten pounds. I cut the meat so that it yields approximately one-third roasts, one-third boiling meat and one-third steaks, and these proportions are maintained as closely as possible in distributing the beef among the different families.

"On the wall of the slaughter house is posted a chart and in a square opposite each family's name is placed the quantity of meat they receive each week. At the end of the season the total quantity of beef delivered is divided by the number of shares, to find the average due each. If it is found that a shareholder has received less than this average, he will have a balance coming; if above, he must make up the difference. These balances are settled upon the basis of a definite price per pound agreed upon at the beginning of the season." [1]

No meat is bought or sold during the season except these very small amounts when the accounts are balanced. There is, therefore, no opportunity for the making of a profit, but each member does

[1] Country Gentleman, July 29, 1922.

receive the benefits of very substantial savings. The members, through cooperation, are able to provide themselves with fresh beef at a much lower cost than they could secure it through ordinary trade channels.

Cooperation among Governing Agencies.—In the Southern states a campaign for eradicating the cattle tick is being carried on cooperatively by the states, the counties, and the Federal Government. The major portion of the money is furnished by the states and counties in which the work is done, but the supervision and the expert information are furnished by the Bureau of Animal Industry of the United States Department of Agriculture. No one of these cooperating agencies could do the job alone, nor could it be done by the individual citizens of a county. Since they are working together, it is a question of only a few years until the last tick will have been exterminated in every Southern state.

Cooperation is Not Communism.—We sometimes hear cooperation spoken of as one phase of communism. It is true that communism is "a working together" but certainly cooperation is distinct from communism. The communist believes that all the goods of the group should be held in common, and that all should share according to their needs. The cooperator believes that if all work together toward certain ends or in the accomplishment of certain purposes all will be benefited as individuals and, therefore, the entire group will profit. There is no difference, as far as total immediate wealth is concerned, whether ten men have an undivided unsalable interest in property worth $1000 or whether each one owns a $100 share in the property which he can count as individual wealth and which he can sell if he so desires. The final results may be very different, because man is so constituted that he will work harder if he and his family are to secure all the results of his labor than if it is to be shared equally among a large number of persons, some of whom may not be working or may work less efficiently than he. The average man is also more willing to save, especially when saving entails sacrifice, if he is to secure the rewards of the sacrifice, than when the rewards are to be shared by a large number of persons. Communism has been tried many times, but most of the experiments have been very short-lived. A few, starting under unusually favorable conditions, have lasted to the third generation, but none can be regarded as permanent.

Cooperation and Socialism.—State socialism advocates government ownership and operation of public utilities. Some well-known socialists advocate the annulment of private ownership of capital and land and maintain that all values are the creation and just due of

labor. It is, in fact, a little hard to define socialism, because of the wide variation in socialistic doctrine. While all socialists believe in increasing the activities of the government and the number of things that should be done for us, the extent to which the average socialist would destroy private ownership of property depends to a very considerable extent upon his material prosperity. The socialist with little ambition and no accumulations would usually like to see an equal division of all property. He seldom senses the need of the world for accumulated capital. The socialist who has worked and prospered usually points with pride to our public schools, public libraries, and post office system, and advocates that railroads, express companies, street railways, telephones, and various other public utilities should be owned by the government and operated for the benefit of society as a whole rather than for the payment of dividends to the men who have invested their capital therein.

Cooperators believe that a utility that benefits only a part of the people can usually be operated more successfully by the persons directly interested than by public officials. They maintain that the fact that a village may, and usually does, operate its water plant with great success does not prove that the public should operate stores, mills, and elevators. The conditions are not comparable. Everyone uses water and everyone is, therefore, interested as a consumer in good service and reasonable rates. If there is a lowered efficiency and complaints are made, everyone is interested.

A grain elevator located in a village does not serve the inhabitants of the village but the farmers of the surrounding country. Grain-marketing conditions must be very bad before either the villager or the city worker gives them any attention. Their interest, when aroused, is generally the interest of the consumer rather than that of the producer. The cooperative viewpoint, that the farmers of a community or state are better able to handle their grain business than is the state to handle it for them, seems logical. They are the persons whose interest is direct. The same reasoning applies to other cooperative activities compared with state ownership or socialism.

Perhaps the comparison can best be summarized by saying that socialism would destroy private monopoly by substituting governmental monopoly. It would put an end to the exploitation of the weak by the strong by putting an end to private enterprise. It would replace private capital with public capital. Few persons doubt that it is possible to end private monopoly and curb private enterprise with a governmental monopoly, but there is a very general impression

that the state would not give us increased efficiency. Instead of turning all initiative over to governmental agencies, most of us prefer to cope with a system which is admittedly defective, but which includes individual ownership of capital, individual enterprise, and free competition—even though some people have cornered more than their fair share of the capital, have pre-empted the best opportunities for individual enterprise, and have placed restrictions upon the workings of free competition.

Cooperation merely asks that rules be laid down which will permit people to carry on their business. In order to carry it on most efficiently, not only organization, but a particular form of organization, is sometimes necessary. The cooperator is willing to risk his own capital upon his faith in the business efficiency of his own organization. He is willing to compete when necessary with organizations that are monopolistic and exploitive. He asks no odds. The difference between cooperation and socialism is the difference between the man who does things for himself and the man who says, "Let George do it."

Restricted Meaning of Cooperation.—The word "cooperation" is often used in a greatly restricted sense. Various states have passed laws providing for the incorporation of cooperative organizations and in some instances have restricted the use of the term to the associations organized under these laws. For example, the Nebraska statutes (1925) prohibit any company from using the word "cooperative" in its name unless it is organized under the cooperative law. Many of the older farmers' elevator companies, which were of necessity organized under the general corporation law, are, therefore, classed as "not truly cooperative."

Cooperation Defined.—In this book the word "cooperation" will be used neither in its broadest nor in its most restricted meaning. If it is given the broad interpretation, too much may be included that is not in harmony with the spirit of cooperation; and if a narrow definition is adhered to, much united action which is cooperative in spirit must be excluded. This meaning may be expressed by saying that *cooperation is the voluntary union of persons for the purpose of securing savings in production, or marketing, or the rendering of other service without assistance from government and upon equitable principles.* The author believes this definition is narrow enough to exclude monopoly and socialism and broad enough to include all associations that have been organized in accordance with the principles which practical cooperators have found essential to success.

Growth of Organized Cooperation.—Unorganized cooperation is very old, but organized business cooperation is comparatively new. It had its beginning in England in 1844 and was known to the leaders of the Grange movement in the seventies, but did not become an important factor in American rural life until the twentieth century. It takes time for a busy people, living upon somewhat isolated farms, to learn the possibilities of organized effort. Individuals could catch the vision only through the agency of some organization.

It is impossible to discuss within the limits of a single book all the farm organizations that have fostered cooperation among farmers. Among those whose contributions to the cooperative movement are notably large are The Order of the Patrons of Husbandry, better known as The Grange, The Farmers' Alliance, The Agricultural Wheel, The Western Alliance, The Farmers' Educational and Cooperative Union, The American Society of Equity, The Equity Union, The Cooperative Elevator Associations of the various states, The American Cooperative Elevator Association, and the Farm Bureau —national, state, and county.

Roosevelt and the Country Life Commission.—Perhaps no organization which preceded President Roosevelt's Country Life Commission was a more potent factor in awakening the country to a need of better rural organization. The hearings of this Commission were given wide publicity and their report was very widely read. President Roosevelt himself helped to make the appointment of the commission, their work, and the presentation of their report, events of national importance. In transmitting their report to Congress in February, 1909, he said, "There are three main directions in which the farmers can help themselves; namely, better farming, better business, and better living on the farm."

In this same message to Congress, President Roosevelt emphasized the need for cooperation in the following words:

"It is true that country life has improved greatly in attractiveness, health, and comfort, and that the farmer's earnings are higher than they were. But city life is advancing even more rapidly, because of the greater attention which is being given by the citizens of the towns to their own betterment. For just this reason the introduction of effective agricultural cooperation throughout the United States is of the first importance. Where farmers are organized cooperatively they not only avail themselves much more readily of business opportunities and improved methods, but it is found that the organizations which bring them together in the work of their lives are used also for social and intellectual advancement.

"The cooperative plan is the best plan of organization wherever men have the right spirit to carry it out. Under this plan any business undertaking is managed by a committee; every man has one vote and only one vote; and everyone gets profits according to what he sells or buys or supplies. It develops individual responsibility and has a moral as well as a financial value over any other plan.

"I desire only to take counsel with the farmers as fellow-citizens. It is not the problem of the farmers alone that I am discussing with them, but a problem which affects every city as well as every farm in the country. It is a problem which the working farmers will have to solve for themselves; but it is a problem which also affects in only less degree all the rest of us, and therefore if we can render any help toward its solution, it is not only our duty but our interest to do so."

The Bureau of Agricultural Economics of the U. S. Department of Agriculture and the Departments of Agricultural Economics or Farm Economics in the Land-Grant colleges owe their origin and early growth quite largely to the forces set in motion by President Roosevelt through his Country Life Commission. Following the publication of their report, there was a rapid development of interest in marketing, farm organization, farm accounting, cooperation, rural social life, and kindred subjects. The organization of rural interests in general and organized business cooperation in particular have made greater progress since 1910 than in all the years preceding. It is true that there was a good foundation upon which to build, but there was also brought to the public consciousness the need for cooperation, and sources from which assistance in organization could be secured were made known.

Scope of this Book.—In the chapters which follow an attempt is made to trace the early development of the cooperative movement in England and America, to outline the principles upon which successful business cooperation rests, to tell of successes and failures, to quote laws and precedents, to present a truthful picture of cooperation to-day, and to indicate some of its possibilities. Not all cooperative organizations can be mentioned, but it is believed that the type of organizations and commodities selected are fairly representative.

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CHAPTER II

ROBERT OWEN

The Industrial Revolution.—The substitution of machine labor for hand labor in many industries and the centralization of the workers in factories is generally known in England as the Industrial Revolution. The transition was made possible by a series of new inventions and was particularly rapid from about 1770 to about 1840. The invention of the spinning "jenny" by Hargreaves in 1767, the practical application of roller spinning by Arkwright in 1771, the introduction of the spinning mule in 1779, and the successful use of steam for power purposes by Watt in 1785 were enough of themselves to revolutionize the spinning industry. The first successful power loom was built in 1785 but did not come into general use for nearly twenty years. Under the changed conditions a child could tend a machine that would do more work and better work than several men could do by hand.

At the beginning of this period there were no laws or regulations concerning labor and, as the labor-saving machinery left at first a great surplus of workers, the factory owners were quick to take advantage and force wages to the lowest possible level. The story of the industrial life of that period is a story of long hours of grinding toil, crowded tenements, child labor, and wages so low that they would not suffice to provide the merest necessities of life. The passing of adequate laws to stop the exploiting of children, and the complete utilization of the labor freed from hand weaving and other similar work did not come until years later. So long as the great mass of the common people, the workers, had difficulty in purchasing the most meager necessities, because they could not get remunerative work, there could not be a large home market for the comforts and luxuries which their labor might produce. In other words, there must be work for everyone before there can be general prosperity, and conversely, when there is general prosperity everyone has work. No country gets rich from its idle labor nor accumulates wealth which is not produced. The difficulty in England at that period was to make the readjustment

—to provide new work for those thrown out of the old jobs so that they would be able to buy food and their share of the comforts which there was now time to manufacture.

Some Effects of the Napoleonic Wars.—The Napoleonic Wars (1793–1816) brought poverty and hardship to Europe and in England aggravated the conditions produced by the Industrial Revolution. As the world has been relearning in recent years, it is impossible to purchase food, clothing, shelter, and the comforts of life with the money that is expended for munitions of war. War consumes capital, and leaves the nations that fight that much poorer. Sometimes one nation may prosper temporarily at the expense of another, and sometimes a temporary period of inflation may be mistaken for true prosperity, but in the long run the nations that fight and the world as a whole are poorer because of war.

Nations cannot always avoid war. England and France could not avoid war in 1914 and the United States could not avoid it with honor in 1917. Neither could England avoid the Napoleonic Wars although her participation cost her one-half million men and more than $5,000,-000,000. The war which continued with but short interruptions from 1793 to 1815 left England and nearly all other European countries poor. The national debt of Great Britain in 1816 was $4,420,000,000, and the annual interest charge $162,000,000. This was an enormous burden for that time, when her wealth and population were much less than they are to-day. Taxes were necessarily heavy and left the common people all too little for the comforts or even the necessaries of life.

Owen's Mills at New Lanark.—Among the most successful mill owners of that period was Robert Owen of New Lanark. He operated what was known as the best-regulated factory in the world. Although far in advance of most of his competitors not only in administrative ability but in regard to the welfare of his employees as well, he nevertheless tolerated conditions that we would think unbearable at the present time. His employees numbered about 2000 and for many years about 500 of these were children between the ages of five and eight. Most of these children were obtained from poorhouses and charities of Edinburgh and Glasgow and served under an apprenticeship which was usually finished at from thirteen to fifteen. They worked from six in the morning until seven in the evening, and had one-half hour off for breakfast and three-fourths of an hour for dinner, making eleven and three-fourths hours of work. They had school from seven to nine in the evening, but after such a day of grinding toil

there could be little wonder that the pupils made slow progress and that many of them were so tired that they fell asleep.

Robert Owen believed neither in such long hours of labor nor in such hard work for children, but at first he was short of capital and his various partners were always insistent upon profits. He strove from the first to do all that he could for his workers, carrying his reforms in their interests so far that friction arose between his partners and himself. He realized that it was fully as important for them to utilize their wages to good advantage as it was for him to pay good wages. *He therefore endeavored to train his employees* to habits of order, cleanliness, and thrift. Eventually he put an end to the employment of pauper children and permitted no child under ten years of age to work in his mill.

Among Owen's reforms was the maintaining of a sick fund which paid for medical attendance for all employees. He started a savings bank which was well patronized, and finally opened a store to supply food, clothing, milk, and fuel of "soundest quality" at little more than cost price. He claimed as a result of his store that people were able to save 25 per cent of their expenses besides getting the best. Later on, a day school for children was opened and the school building was thrown open in the evening for the children and adults who worked in the mill during the day.

"For twenty-nine years" (from 1799), wrote Owen, "we did without the necessity for magistrates or lawyers; without a single legal punishment; without any known poors' rate; without intemperance or religious animosities. We reduced the hours of labor, well educated all the children from infancy, greatly improved the crowded condition of the adults, diminished their daily labor, paid interest on capital and cleared upwards of 300,000 pounds of profit."

With such wonderful results, it is not surprising that "New Lanark became a show place of world-wide renown and was visited by many of the greatest and most exalted people of the period."

Owen's Communistic Ideal.—The results which Owen achieved in New Lanark were so satisfactory that he began to have visions of a still further development of community betterment. The plan which he worked out as an ideal was a form of communism. He thought that from 500 to 3000 persons would make a fit number for a working community. All these should live in one building in the form of a square with a public kitchen and mess room. Each family should have a private apartment and entire care of children up to three years of age, after which they should be brought up by the com-

munity, with the parent's care at meal time. The work and the enjoyment of the results of work should be in common. While a considerable part of the work was to be agricultural yet the community should offer every variety of employment. All equipment should be of the best. Owen hoped to provide for the best of education, unite the advantages of town and country, and correct the monotony of factory life with the freest variety of occupations, utilizing all latest improvements. As these ideal towns increased in number, they should be federated with other towns in circles of tens, hundreds, and thousands, until the whole world was embraced in one great republic with common interests.

The plan was tried out at Obistan near Glasgow in 1825 under the direction of one of Owen's disciples, Abram Combe. The class of people who were willing to embark on the enterprise were lazy, dirty, and thriftless. They could not understand working for the general welfare. Each wanted to make as much as possible and give in return as little as possible. The work was done by fits and starts. The public kitchen and mess room proved unsatisfactory, the majority of the communists deciding that home cooking was better and cheaper. Within a few months the members themselves began to doubt the system, and it failed miserably at the end of two years.

Robert Owen in America.—Mr. Owen could not, however, give up his idea of successful communism. In 1824 he purchased 20,000 acres of land of the Rappites at New Harmony, Indiana. Owen himself came to this country and shortly after his arrival spoke in the National House of Representatives explaining his aims. The President, Members of the Cabinet, and Congressmen were present.

Within a few weeks his colony numbered 800 persons and by October, 1825, 900. It was afterward described by his son, Robert Dale Owen, as a "heterogeneous collection of radicals, enthusiastic devotees to principle, honest latitudinarians, and lazy theorists, with a sprinkling of unprincipled sharpers thrown in."

According to the constitution, the society was open to all the world except "persons of color." All members of the community were to be considered as one family—no one higher or lower on account of occupation. There were to be similar food, clothing, and education for all according to their ages. All were to live in similar houses and to be accommodated alike, and every member was expected to render his or her best services to the community. The ownership of the real estate was vested in the community as a whole.

Like other communal attempts which preceded and followed it,

the colony at New Harmony failed. The society was too large and the elements too heterogeneous. In spite of the democracy of the constitution there were social inequality and religious differences. Working men read the newspapers instead of joining in the dance in the public hall. Young ladies disliked too much democracy in the allotting of dance partners. The better educated members kept together at the lectures. Many members were careless of community property and others lacked interest in the experiment. Owen left New Harmony late in 1828, feeling that the attempt to unite strangers not previously educated for the purpose had been premature.

The National Equitable Labor Exchange.—Returning to England, he soon embarked upon another philanthropic plan for helping the working men. The store established at New Lanark had been a success, and this encouraged him to think that one solution of the problem might lie in the elimination of the middlemen. His completed plans provided not only for starting stores but for establishing a new standard of value and medium of exchange. He argued that "all wealth proceeds from labor and knowledge"; since labor and knowledge are remunerated according to the time employed, time should be made the standard of wealth. An average day's labor should be ten hours valued at the rate of 6 pence an hour. A chair, for example, would be valued at the value of the raw material plus the value of labor added. .

The National Equitable Labor Exchange opened September 17, 1832, in Gray's Inn Road. The idea was popular, especially among persons who had goods to sell in which they had invested labor. The deposits of goods during the first few days were so numerous that the pavement was blocked. It was necessary to close the Exchange for a few days to arrange and price the goods deposited. As the piles of goods in the Exchange increased, the difficulty of valuing them increased. It was important to know not only how many hours a workman had actually been occupied in making an article but how many hours the labor should have consumed. The Exchange finally refused to accept goods at less than forty hours' value.

The Labor Exchange was much less of a success than the New Lanark store. There were religious differences among the members. The women disliked to confine their dealings to one shop. Trade decreased, the Exchange was unable to meet its obligations and necessarily closed.

Failure at Tytherly.—Saddened by the failure of the Labor Exchange but undaunted in spirit, Mr. Owen in 1839 backed another

attempt at communism made at Tytherly, in Hampshire, England. There was dissent almost from the beginning. The attempt ended in absolute failure.

Results of Owen's Failures.—Owen's attempts and failures seem to have established fairly definitely the fact that men cannot work together through the medium of communism. An idealistic plan, such as the settlement at New Harmony or the Labor Exchange, is also almost of a certainty foredoomed to failure. Human nature is much the same the world over, and these plans do not recognize the fact that most of us are inherently selfish. We will work to help the other fellow, as a regular thing, only when we can see some benefit accruing to ourselves.

Robert Owen was one of the best executives of his day. His reputation as a successful business man was well established. The success of his altruistic plans among his own employees far surpassed any similar attempt. The influence of Owen's name would have gained the consideration of many men for any enterprise with which he was connected. He backed his ventures not only with his name and ideas but with his personal fortune as well. Despite all these favorable factors—his executive ability and enthusiasm and the confidence inspired by his name and wealth—every communistic and socialistic undertaking with which he was connected collapsed. His entire fortune was dissipated in these various ventures, and he died a poor man.

There are certain economic laws which cannot be contraverted. There are human characteristics that neither time nor environment seem to change—that it may be best should not be changed. The desire of every ambitious person to achieve success and the willingness to work to that end are tendencies that should not be stifled if the world is to go forward. Neither socialism nor communism appeals to the ambitious man; perhaps neither one appeals to the best in most men, and certainly neither one has given to the world very much in the way of progress.

Owen's Success.—Notwithstanding Robert Owen's successive failures he is generally called "the father of cooperation." He had a vision of what might be accomplished by the united effort of working men, and succeeded in helping other men glimpse the vision. Because of Owen and his teaching, men thought and talked cooperation. Numerous cooperative enterprises—mostly stores—were started between 1820 and 1840, besides those fostered directly by Owen. Most of these attempted to sell goods at cost and were short-lived. Despite the many failures, the idea persisted. It lacked only a practicable,

workable plan. Such a plan was put in operation by other men during Owen's lifetime.

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CHAPTER III

THE ROCHDALE PIONEERS

Condition of the English Workingman, 1837–1844.—As has already been stated, the Industrial Revolution in Great Britain was accompanied by poverty and distress. Conditions were particularly bad during the quarter century following the close of the Napoleonic Wars in 1815. The readjustment of industry to conform to the decreased labor requirements was a slow process, as was also the recovery of the country from the losses of the long wars. The lowest ebb was probably reached during the period of business depression which began in 1837. There was not as great a panic in Great Britain at that time as we had in the United States, because there had been neither so extensive a boom nor such wild speculation. The business depression was world wide and in England continued for several years.

The English workingman of that period bore nearly the full burden of taxation. Two-thirds of the total revenue was raised by the customs and excise taxes and a part of the remainder by stamp taxes. There were heavy import duties upon wheat, tea, coffee, cocoa, linen, wool, lumber, glass, and a long list of other staple commodities. There were excise taxes upon houses, windows, calico, tallow candles, newspapers, advertisements, and many other articles that everyone must use. A tax on necessary articles of consumption, whether levied directly as a consumption tax or indirectly as a tariff or excise tax, always falls most heavily upon those least able to pay, since the poor must spend their entire income for necessities.

During the Napoleonic Wars Great Britain raised a large part of her revenue from an income tax, but owing to the pressure of the wealthy this was repealed in 1816. Workingmen believed, and apparently had good grounds for their belief, that the Government was conducted by and for the landed classes and nobles. The general condition of the country became so bad and the distress of the working classes so acute that finally in 1842 the income tax was re-enacted and the poor people relieved of a part of their burden.

Conditions in Rochdale.—Perhaps in few places in England were the conditions of the factory workers more wretched than in Rochdale. One author has said that the houses were really but little more than long rows of dreary caves. There was dirt, squalor, and gloom both without and within. "Rochdale in Perdition" was an expression used to describe conditions. Holyoake, in his "History of the Rochdale Pioneers," says: "The hand loom weaver seemed to be the worst off of any of the working classes. Improved machinery had driven him to the lowest point at which he could live. The condition of things in Rochdale would be incredible did it not rest upon authority. Shannon Crawford, the member for the borough, declared in the House of Commons in the debate of September 20, 1841, that in Rochdale there were 160 people living on 6 pence (12 cents) per week, 200 on 10 pence per week, 508 on 1 shilling (24 cents) per week, 855 on 1 shilling 6 pence (36 cents) per week, and 1500 living on 1 shilling 10 pence (44 cents) per week. Five-sixths of those he spoke of had scarcely any blankets. Sixty-five families had no blankets, and forty-six families had only chaff beds with no covering at all."

During this period there were many strikes which usually terminated unsatisfactorily for the strikers. They were too poor to hold out very long, and there was a surplus of workers who must live even though wages were pitifully meager. The place of the hungry striker could always be filled by someone else just a little hungrier. In 1844 the flannel weavers of Rochdale struck. There had been a boom in flannels the preceding year and the manufacturers had prospered. The workers asked for a share in the prosperity but were refused. The men struck but were soon compelled by necessity to return to work. Empty stomachs and children crying for bread were unanswerable arguments.

The Rochdale Society of Equitable Pioneers.—Some of these woolen weavers very wisely decided that if they could not secure an increase in wages, the next best thing would be to increase the purchasing power of the wages received. The followers of Owen advocated cooperation. The success of a cooperative venture started at Brighton in 1827, and of some similar ventures organized soon after that, was full of promise. The Brighton pioneers did not use all the principles which later helped the cooperative movement to develop, and most societies built upon this plan were relatively short-lived, but they did call the attention of many men to the possibilities of cooperation. The weavers of Rochdale built their organization in part on the Brighton plan. The idea of cooperative buying grew, and

there was formed "The Rochdale Society of Equitable Pioneers." There were at first only about a dozen members, but this number had increased to twenty-eight when the organization was completed. The Pioneers set forth the following purposes of organization.

1. "The establishment of a store for the sale of provisions, clothing, etc.
2. "The building, purchasing or erecting a number of houses, in which those members, desiring to assist each other in improving their domestic and social condition, may reside.
3. "The manufacture of such articles as the society may determine upon, to provide employment of such members who may be without employment or who may be suffering from repeated reductions in their wages.
4. "The purchase or renting of an estate or estates of land which shall be cultivated by members who may be out of employment, or whose labor may be badly remunerated.
5. "And further, that as soon as practicable this society shall proceed to arrange the powers of production, distribution, education and government; or, in other words, to establish a self-supporting home colony of united interests, or assist other society in establishing such colonies."

This was certainly an ambitious plan. When one recalls the poverty-stricken condition of the organizers one almost wonders that they had the hope and courage to suggest such a course of action. The organizers wisely decided that the establishment of a store should come first and with praiseworthy energy set about raising the capital. Since they had neither money nor credit, they decided to save the amount necessary from their own meager earnings.

The value of each share of stock was fixed at one pound, that is, at approximately $4.86 American money. Each member must take out one share, but was required to pay only 2 pence as an initiation fee and might pay the remainder at the rate of 2 pence a week.

The collecting of the weekly subscriptions was no small task. The members lived so far apart that the weekly collection involved a twenty-mile circuit. The collectors went around every Sunday morning. It took more than a year to collect 28 pounds, which was thought to be sufficent to start a store.

The ground floor of a warehouse in Toad Lane was rented for 10 pounds a year. It was described as the "most dismal barracks in a dismal town." After purchasing fixtures they had but 15 pounds (about $73) left to invest in a stock of groceries. Because of their small capital they handled at first but four commodities—flour, butter, sugar, and oatmeal.

The "Auld Weaver's Shop," as the store had been nicknamed, did not receive a cordial reception from the public when it was opened for business. The members themselves doubtless felt a little dubious, as the shutters were opened amid the "titters and jeers of Rochdale street urchins, the sneers of curious tradesmen, and the indifferent comments of passing townsfolk." The store was at first kept open only on Monday and Saturday nights. The members took turns in serving in the shop and all service was voluntary and unpaid.

The difficulties of the Rochdale Pioneers did not end with the opening of the store. Perhaps the greatest danger to the store was internal, from 1846 to 1848, and was due to hard times and bad trade as well as to apathy on the part of many members. Some of the members would not trade at the store if it caused them any inconvenience. If the quality of the goods was inferior or prices higher, trade went elsewhere. The members also were ignorant in commercial matters, differed upon religion and politics, and were not accustomed to democracy, not even to the democracy of managing a store.

Business men saw danger in the cooperative movement and petitioned Parliament to stop cooperation. The local shop keepers were united in their opposition to the cooperative store, apparently feeling that they had some inherent right to handle the retail trade of the town. The store developed slowly by the loyal support of a few. They had no advice or assistance from the so-called "better classes."

The failure of the Rochdale Savings Bank in 1849 caused people to turn to the Equitable Pioneers. The workers felt themselves neglected by the Government and cheated by those above them. They saw that the store as their own organization could be made to serve their needs and at the same time provide a safe investment for their capital.

As business and capital increased the store was better enabled to provide for the needs of its members. In March, 1845, a license was taken out to sell cheese and tobacco. Meat was first sold in 1845. In 1848 an entire warehouse, three floors and an attic, was rented for a period of twenty-one years. It was not until 1850 that the business increased sufficiently to warrant the Pioneers in keeping open all day, each day in the week. They added to the stock gradually and by 1852 not only sold nearly all groceries but also manufactured shoes and clothing.

In 1851 "the first salaried officer was appointed in the person of James Smithies, one of the original Pioneers, to act as secretary at a salary of 15 pounds a year, with a staff of a superintendent and two

shop men at the weekly wages of 18 shillings, 16 shillings, and 15 shillings, respectively." At the meeting at which these salaries were fixed the resolution was passed, "that no paid officer be a member of the board, or a member of the board be a paid servant."

As the number of members and the volume of business increased, branches were established in various parts of the city. The following table shows the development during the early years and the very substantial success of the enterprise:

TABLE I

GROWTH OF COOPERATIVE BUYING IN ENGLAND

Year	Members	Capital	Business	Profits
		Pounds	Pounds	Pounds
1844	28	28		
1845	74	181	710	22
1846	80	252	1,146	89
1847	110	286	1,924	72
1848	149	397	2,276	117
1849	390	1,193	6,611	561
1850	600	2,289	13,179	880
1855	1400	11,032	44,902	3,109
1860	3450	37,710	152,063	15,906
1865	5326	78,778	196,234	25,156
1870	5560	80,291	223,021	25,209
1876	8892	254,000	305,190	50,668
1900	....	....	1,500,000	240,000

Essential Principles of Cooperation.—The Rochdale Society of Equitable Pioneers would doubtless have had an even shorter lease of life than did most of the so-called cooperative stores which preceded them had it not been for their plan of organization. They studied the obstacles that had confronted other organizations and adopted rules that would obviate or at least lessen such troubles. Their success may be said to have hinged largely upon the following six principles. The first three of these are of such prime importance that they have often been called the essentials of business cooperation.

1. One man, one vote.
2. Dividends on capital stock limited to current interest rates.
3. Earnings divided in proportion to patronage.
4. Goods sold at regular retail prices.

5. Business conducted on a cash basis.
6. Number of shares which one member might own limited.

One Man, One Vote.—Each man was given one vote and only one, regardless of the amount of stock held. This rule is diametrically opposed to the common rule in ordinary corporations which bases the voting power upon the money invested. In other words, any organization adopting this rule becomes an industrial democracy, and each member, rich or poor, has an equal share in the management.

Dividends on Capital Limited to Current Interest Rates.—Dividends on stock were considered simply as interest upon capital and not as profits. This recognized capital as a servant only, never a master. It receives a fair wage for the work it does, the same as any other employee. The Pioneers at first fixed their interest rate at $3\frac{1}{2}$ per cent, but afterward raised it to 5 per cent, probably to retard withdrawals. At a later period the society had more capital than it could well use and again lowered the interest rate.

The Patronage Dividend.—The division of profits in proportion to patronage is not considered by the ordinary business corporation. It recognizes the fact that profits come not from capital but from business. Since the "profits" of a cooperative company are in reality savings, they should certainly be returned to the men who furnish the business upon which the savings are made. The patronage dividend may be considered as an indirect method of realizing Owen's ideal and eliminating profit on the purchase price.

In the early history of the store a record was kept of the purchases made by each member. As the business increased there arose the necessity of reducing the labor of record keeping. A plan was adopted which provided for the giving of a "tin ticket" with each purchase. At the end of each quarter the member presented his tickets and received a dividend at some rate per cent upon the value of his purchases. The greater the value of his purchases the larger the amount of his dividend.

Some buyers regard lightly a slight difference in the price of similar articles in two stores. The amount saved upon a single purchase is so small that they will buy where most convenient and where the most complete service is given. The value of small savings is best seen after the savings for a considerable period have accumulated. The patronage dividend combines into a single payment the savings of several months or perhaps a year.

Many persons find it difficult to save small amounts. The week's

wages are expended for little things as rapidly as earned. The Rochdale plan saves money for such persons and returns it to them in amounts sufficient to permit an investment or the purchase of something really worth while.

Holyoake, in his "History of Cooperation," describes the effects upon the Rochdale Pioneers of the payment of the patronage dividend:

"At length the time came when substantial profits were made—palpable profits, actually paid over the counter, tangible in the pocket, and certain of recurrence, with increase, at every subsequent quarter day. It took some years to attain to them. But time was not counted when they did come. The fact was so unexpected that when it was generally divulged it had all the freshness and suddenness of a revelation to outsiders. The effect of this patient and obscure success was diffused about, as we might say, in apostolical language—'noised abroad.' There needed no advertisement to spread it. When profits —a new name among work people—were found to be really made, and known to be really had by members quarter by quarter, they were copiously heard of. The cooperator, who had never had any encouragement from his neighbor, felt a natural pride in making him sensible that he was succeeding. As he had never had any success to boast of before, he was not likely to make little of this. Besides, his animated face suggested that his projects were prospering. He appeared better fed, which was not likely to escape notice among hungry weavers. He was better dressed than formerly, which gave him distinction among his shabby comrades in the mill. The wife no longer had "to sell her petticoat," but had a new gown, and she was not likely to be silent about that; nor was it likely to remain much in concealment. It became a walking and graceful advertisement of cooperation in every part of the town. Her neighbors were not slow to notice the change in attire, and their very gossip became a sort of propagandism; and other husbands received hints they might as well belong to the store. The children had cleaner faces, and new pinafores or new jackets, and they propagated the source of their new comforts in their little way, and other little children communicated to their parents what they had seen. Some old hen coops were furbished up and new pullets were observed in them—the cocks seemed to crow of cooperation. Here and there a pig, which was known to belong to a cooperator, was seen to be fattening, and seemed to squeal in favor of the store. After a while a piano-forte was reported to have been seen in a cooperative cottage, on which it was said the daughters played cooperative airs, as the like of which had never been heard in that quarter." [1]

Goods Sold at Regular Prices.—Almost as important as the three fundamental principles already discussed was that of selling goods at

[1] Holyoake, George J. History of Cooperation in England, Vol. II, pp. 40, 41.

regular retail prices. Some may argue that theoretically there is little difference between selling goods at cost, including of course the cost of service, and selling them at the regular market price and returning the difference at regular intervals—once a quarter perhaps, as did the original store, or once a year as do most American stores. Practically there is a great deal of difference. In the first place, until all of a certain shipment of goods has been sold no one can tell its exact cost. A part of the goods may become shop worn or unseasonable and have to be sold at less than the cost at wholesale. Fresh fruit and green vegetables are particularly likely to deteriorate. Under the selling at cost policy, such losses usually fall on the store and the capital is dissipated. It is easy for a store to divide a surplus but very difficult to divide a deficit. The volume of business of a store may vary from season to season although rent, clerk hire, interest on investment, and other overhead expenses change but little. Under such a system of doing business the cost of goods to the consumer should increase as the volume of business decreases. No one can foretell such changes with absolute accuracy. Neither does such a system take changes in the wholesale price into consideration.

Owners of non-cooperative stores resent price cutting. Such staples as sugar are usually sold on a rather narrow margin of profit; spices, canned fruits, and goods in the luxury class usually sell on a larger margin. The merchant dislikes to have these regular prices cut ruthlessly and is usually willing to combine with his fellow-merchants in a price war until the price cutter is put out of business. This is usually done by each merchant dropping the price on a few staple articles below cost and calling the attention of his customers to these very low prices. Manufacturers of many commodities that are nationally advertised require that they be sold at a fixed price and refuse to sell goods to any merchant who cuts prices.

Goods Sold for Cash.—The policy of conducting their business on a cash basis also contributed to the success of the Rochdale Pioneers. The store either had the goods to sell or money with which to buy more goods. Had credit been extended they might have found themselves short of goods and without money to pay for more. Their credit was poor, but had they been able to borrow money it would have necessitated the paying of interest. Granting credit to some customers when others pay cash is rank discrimination and cannot be practiced with safety by any cooperative organization. Extending credit is equivalent to loaning money and is an accommodation for which banks require pay. A more complete discussion of the dangers

attending the extension of credit by a cooperative company will be given in a later chapter.

Members Limited in Stock Holdings.—The Rochdale Pioneers limited the number of shares that any one member might own, and this rule has been followed by many other cooperative organizations. The purpose is to prevent a few persons from gaining undue influence in the company. There is, of course, little danger of this where the "one-man one-vote" rule is followed.

Many Benefits to Rochdale Pioneers.—The benefits obtained by the members of the Rochdale Society of Equitable Pioneers were and are out of all proportion to the capital invested and were not limited to the dividends on purchases. The stringent rule which forbade the sale of goods on credit discouraged reckless buying. Members and their families would buy only those things for which they could pay. Even a member who had 50 pounds invested could not obtain a pair of shoes on credit. He might go to the cashier, draw out some of his investment and pay across the counter. The tendency was to do without the goods until they could be paid for without touching the investment.

The store served as a savings bank for members. A member might invest up to 100 pounds at one time. There was no better investment for the working man with savings of under 50 pounds. It was safe, the interest return as good as other first-class securities would pay, and the money could be withdrawn if necessary.

Good will has pervaded the Rochdale stores. As the clerks who are members share in the profits of the store, they have enjoyed short hours and are not apt to appear indifferent, cross, or tired. There have been no strikes or lockouts, no conflict between labor and capital, because labor furnishes a part of the capital. Employees can conscientiously boost their merchandise because adulteration is unknown.

One of the unusual features in connection with the Rochdale Society of Pioneers is their library to which all members have access. In 1879 it contained 10,169 volumes, in 1900 more than 20,000 volumes. There are 21 branch libraries scattered throughout the city and a reading room for patrons wherever there is a cooperative store. The library also rents scientific instruments to members; for example, a telescope may be secured for 4 pence a day or 1 shilling a week, a microscope for 2 pence a day, and field glasses for 1 penny a day.

The society conducts a school in which are taught subjects of practical value to working people. Among the work offered are courses in chemistry, physiology, physics, free-hand and model draw-

ing and designing. The purpose is to increase the skill of artisans. The entrance fee is small.

The Rochdale of to-day bears little resemblance to the Rochdale of 1844. The workingmen live in neat, well-built, comfortable homes, owned by a company of which the renters are shareholders. The laboring man has become a member of the well-to-do middle class. Evidences of thrift and sobriety are higher in Rochdale than in many other cities.

Growth of Cooperation in Great Britain.—The system of cooperation started by the Rochdale Pioneers soon spread to other cities. Many stores were opened in both England and Scotland. In 1863 the North England Cooperative Wholesale Society was established at Manchester. The stock was owned by forty-five local societies. At first two men and a boy were able to care for the business, but within ten years purchasing stations had been opened in Ireland and branches established at Newcastle and London. This society is now called The English Wholesale Society. In 1868 The Scottish Wholesale Society was established with headquarters at Glasgow.

The development of cooperation in Great Britain is well told by Agnes D. Warbasse in a bulletin of the Cooperative League of America.

"Year after year unfailing success has crowned the movement. To-day the cooperative societies in Great Britain embrace one-third of the total population. For forty years the movement has been growing five times faster than the population has increased. During the war the increase has been ten times faster.

"Now what do we find? The cooperative societies of Great Britain distribute nearly $1,000,000,000 worth of commodities to their members annually. The 'profit,' or more properly speaking the savings, to their members amounts to $100,000,000 a year. Of this amount $65,000,000 are returned in cash to the members in the form of 'dividends,' more properly called savings returns. The British Wholesale Society supplies 1,200 societies. It owns its own steamships. It has thirteen great warehouses. It is the largest purchaser of Canadian wheat. Its eight flour mills are the largest in Great Britain. These mills turn out thirty-five tons of flour every hour for the people who own the mills.

"The largest bakery in the world is owned by the cooperators of Glasgow. The British Cooperative Wholesale has sixty-five factories. Their soap works make 500 tons of soap a week. They produce 4,000,000 pairs of boots annually. They conduct three great printing plants. Their creameries and farms produce vast quantities of dairy products, fruit and vegetables. They have recently purchased 10,000 acres of the best wheat lands in Canada. They own their own coal mines. Their last purchase was the Shillbottle coal mine, bought in 1917. They own great tea plantations in Ceylon and vineyards in

Spain. In Africa they control vast tracts of land for the production of palm-olives from which oil for their soap factories is procured.

"These organizations of consumers—springing from the little society of Rochdale—now bring their own currants from Greece to be made into plum-puddings in their own great factories. The British cooperators now produce almost every commodity: watches, furniture, tinware, machinery, clothing, tobacco, chemicals, leather goods, corsets and brushes. Their total products are five times greater than those of the private manufacturers in the Manufacturers' Association. They provide concerts and entertainments. Their welfare work embraces almost every branch of human service; it serves not cooperators alone, but is of wide social benefit. They conduct life-saving stations on the coast and administer large funds for the relief of sufferers from famine and unemployment. Their banking department is next to the Bank of England in importance. One-half of the industrial life and accident insurance done in Great Britain is done by the cooperative society. Their life insurance business is carried on at one-tenth of the cost which the profit-making companies pay.

"It is interesting to note in Great Britain that while cooperative labor gets slightly higher wages than is paid in the same trade in private business, yet its managers and leaders have established standards for their salaries that would be scorned by captains of industry in competitive organizations of similar character. For example, the manager of St. Cuthberts Society, Edinburgh, received a salary of $1750. At the end of twenty-six years he had returned to his consumers $21,379,035 in savings. If he himself had retained instead of distributing these millions and reinvested them in a capitalistic fashion he might have died a famed multi-millionaire. Instead his answer to a firm who urged him to work for them was substantially as follows, 'My fellow cooperators pay me sufficient to satisfy my needs. I am happy serving the people. I should not be happy serving you at the expense of the people.' He is no exception. Amongst many others such as he is William Maxwell, President of the Scottish Wholesale, a federation of 264 consumers' societies. At a salary also of $1750, he organized thirty-seven factories in twenty-seven years. In 1916 the Wholesale manufactured $24,000,000 worth of goods, did a business of $75,000,000, and carried a reserve and insurance fund of $5,000,000. President Killon of the British Cooperative Wholesale at present receives $2250 yearly. He has 30,000 workers under his supreme direction in sixty factories, mills, and warehouses. This Wholesale Society employs about 200,000 people, and in 1917 its business exceeded $300,000,000.

"The British Cooperative Movement is the largest and one of the most successful business enterprises in the world. It has had no difficulty in getting efficient service on the basis of happiness in service rather than in acquisitiveness."

In 1926 there were 1280 retail societies in Great Britain and Ireland with 5,186,728 members. The average number of members

per society was 4052, and nine of the societies had more than 50,000 members each. As a matter of course each of these larger societies operates many stores. Perhaps there is no better indication of the success of these societies than the fact that the membership has increased during each year since 1870, except in 1922 when there was a small decrease due to the severe industrial depression.

Their share capital in 1924 was 80,216,116 pounds, which was an average of 17.06 pounds per member. It increased during 1926 by over 2,300,000 pounds. The average amount invested in stocks of goods in 1924 was only 18,907,036 pounds, and this was turned more than nine times, the total sales amounting to 175,077,825 pounds

The English, Scottish, and Irish wholesale societies supplied more than one-half of the goods sold by the retail societies. They employed 34,227 workers the major part of whom were engaged in manufacture.

In spite of the ambitious program which the twenty-eight weavers of Rochdale outlined, it is doubtful if any of them ever conceived such a wonderful development of cooperation. As Americans we are primarily interested in the principles upon which such a successful movement was founded and upon their application to our own problems.

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CHAPTER IV

EARLY DAYS IN THE GRAIN TRADE

In Colonial days a large part of the grain produced in America was consumed locally. Nearly every community had its water power grist mill where was ground at least a part of the wheat and corn produced in the surrounding country. There were no large cities and no large areas given over almost exclusively to the production of wheat. Transportation was so expensive that each community of necessity was compelled to be as nearly self-sufficing as possible. Grain was seldom so high-priced that it paid to ship it overland any considerable distance.

This condition continued with but little interruption through the early years of the nineteenth century. Then came a gradual change. Settlers flowed westward in an ever-increasing stream to the fertile fields of Ohio, Indiana, and Illinois. The cities of the East grew and demanded the grain that could be produced so cheaply west of the Allegheny Mountains. Methods of transportation improved, and the exchange of the grain of the West for the manufactured goods of the East continued in ever-increasing volume. Water transportation—rivers, lakes, canals—was used as much as possible, but it was not unusual for grain to be hauled long distances overland. We are told that "in the early days, before the advent of railroads, grain was hauled to Chicago by the farmers from as far as one hundred miles inland and sold by them on the streets to local buyers."[1] It was sometimes hauled even greater distances to many other markets.

The invention of the self-binder, threshing machine, two-horse cultivator, and other improved machinery enlarged the area which one man could farm and cheapened the production of grain; the building of the railways brought East and West closer together and made possible the profitable production of grain far from water transportation; the Homestead Act opened up for settlement some of the most fertile American lands; the farmers of Minnesota, Kansas, Iowa, and other states west of the Mississippi were thus enabled to produce

[1] Report of the Federal Trade Commission on the Grain Trade, Vol. I, p. 75.

and ship wheat to Buffalo, New York, and Philadelphia in competition with the wheat grown east of the Appalachian Highland. The production of wheat in the eastern states has decreased until to-day but little is grown.

The First Elevators.—"The first type of handling grain prior to about the time of the Civil War appears to have been through a flat warehouse with a scale and a wheelbarrow. This was prior to the advent of the railways in certain sections, and where this was the case the flat houses were usually, though not always, river houses." [2]

The first elevator transferring grain by means of buckets attached to an endless chain was erected at Buffalo in 1842–3, but this method was not generally adopted, even at the terminal markets, for many years. In the late sixties the first elevators where grain could be dumped from the wagon and hoisted by machinery were built in the Northwest. At first steam power was used, but within a few years horse power became more common. There are few Corn Belt farmers past forty years of age who have not seen a blind horse hitched to a sweep, traveling a circular path at the elevator hour after hour and elevating the grain from the pit to the bins above. Since about 1890 gasoline engines have most commonly furnished the power for hoisting grain, although electric power is often used in towns where it can be obtained.

The majority of the early elevators were built and operated as independent business enterprises. A man saw an opportunity to make a profit by handling the grain of his community and built an elevator. If the volume of grain for sale at the town increased some other man would build a second elevator and divide the business. It was not unusual for three or four independent elevators to be located in a single town, each one bidding for the farmers' grain. Sometimes track buyers, popularly called "scoopers," added to the competition. The track buyer did not have an elevator but loaded the grain directly from the farmer's wagon to the car. He had little overhead expense and could therefore sometimes pay more than could the owner of the elevator. The difference did not need to be very large to induce many farmers to scoop their grain instead of dumping it at the elevator.

Line Elevators.—As early as the sixties, some of the more successful grain buyers operated several elevators at neighboring stations. They soon became known as "line elevators" because they were usually along a single line of railway. They developed most

[2] Report of the Federal Trade Commission on the Grain Trade, Vol. I, p. 76.

rapidly in the Northwest, probably because of the scarcity of local capital resulting from the rapid settlement of the country. The entire grain belt was soon covered with line companies many of which are operating successfully at the present time.

O. N. Refsell gives us an interesting account of the line companies and some of the conditions which favored their rapid growth:

"During the late eighties, however, a situation was developing which was destined to revolutionize conditions in country grain buying. Large grain syndicates were being formed. These were headed by exporters or commission firms and backed by large capital. Each syndicate as a rule operated along only one line of railroad. With this line of railroad the syndicate usually had some connections which would bring to it decided advantages in its shipments of grain. Frequently the managers and heaviest investors in the syndicates would be stockholders or directors of railroads.

"Senator Robert M. LaFollette, in an address before the Senate of the United States, June 25, 1906, pointed out some of these close connections existing between certain large elevator concerns and some railroads. In the course of his remarks he quoted the following letter which he had received:

> "Instances of officers or employees being interested in shipment of freight over the line of railroad with which they are connected is illustrated by the Northern Supply Company located at Emery, Wisconsin, on the Minneapolis, St. Paul, and Sault Ste. Marie Railway Company's line. At the same time I made the investigation over one-fourth of the stock of this company was owned by the claim agent and assistant solicitor of this railway company and one-fourth was owned by the son of the second vice-president and general manager of the road; three shares of stock were owned by the father-in-law of this son; the remaining shares were owned by two employees in the service of this company. The information furnished me showed that every private elevator company on this line had been forced out of business where it competed with the Northern Supply Company.
>
> John W. Thomas,
> Railroad Commissioner, Wisconsin.

"The Northern Supply Company is a grain company of Wisconsin. Mr. LaFollette also pointed out that Mr. Armour of the Armour Elevator Company was one of the heaviest stockholders of the Milwaukee and St. Paul road and one of the directors of that company.

"As a result of these connections with the railroads the syndicates became favored shippers, receiving more prompt and satisfactory service as well as cheaper rates than their competitors. Ex-Governor Van Sant of Minnesota in a speech quoted George Loftus as follows: 'Certain of our large elevator concerns enjoy a special rate on grain from Minneapolis to Duluth of $2\frac{1}{2}$ cents per hundred, while the

tariff is 5 cents.' Investigations by the Interstate Commerce Commission revealed another type of railroad favoritism. It was shown that certain large grain concerns would receive notice of a proposed advance or cut in freight rates on grain on the Milwaukee railroad. These notices would be given some time before the change in rates would take effect so the grain dealers would be able to profit considerably by this advance information, as it would help them to gauge their purchases and sales of grain as well as their shipments.

"In addition to their numerous country elevators, the syndicates also very frequently own large storage elevators at the grain centers or primary markets. Their grain may then be shipped directly to the terminal elevators, thus dispensing with the services of commission men and thereby avoiding the regular commission charge of one cent per bushel which is paid by individual dealers.

"These syndicates found the way toward a control of the grain marketing already quite well prepared for them by the grain dealers' association mentioned above. With their increased advantages and powers they could soon make the control complete. These syndicates operated so many elevators that by acting together they could practically dictate prices to be paid for grain. Even though they entered a point already provided with elevators they would soon proceed to gain sufficient control to determine what price the farmer should be paid for his grain, in so far as it is possible for a monopoly to fix prices.

"Before locating an elevator at such a point, the syndicate would usually offer to buy an elevator from a dealer already established there, offering him a rather low price for his property. If the dealer refused to sell they would threaten to build a new elevator and run him out. The threat would also, as a rule, be carried out, and the old dealer would be forced either to quit business or to work in harmony with the syndicate." [3]

Thomas Worrall's Experience with the Grain Trust.—Thomas D. Worrall, in his book, "The Grain Trust Exposed," gives a history of his personal experience in competing with a strong line company:

"It was in November, 1896, at Agnew, Nebraska, within 80 rods of the place where as a boy I wrestled with the multiplication table in a sod schoolhouse, that, with my brother J. S. Worrall, I embarked in the business of buying and shipping grain.

"The X Elevator Company of Omaha owned and operated at that time the only elevator at Agnew. The opening for us seemed bright. But I have said before, and say now, that had either of us ever dreamed of what we would have to face, in the years that were to follow, I doubt if we would ever have embarked in the grain business. Even then the X Elevator Company was the largest operator of elevators on the Union Pacific, and the officers and agents of that

[3] American Cooperative Journal, Vol. 10, No. 1, pp. 18, 19.

road did its bidding and furnished it with all the pointers and information that came to their knowledge.

"During that first winter we bought grain from the farmers and shoveled it direct from the wagons into the cars, of which we got our pro rata share with the elevator. We did a good business in those first few months. The Nebraska Grain Dealers' Association, although it was in existence, was young and neither very strong nor very active. Because it was weak, there was competition in the buying and selling of grain at every station in Nebraska where two or more buyers were found.

"In July, 1897, the agent of the Union Pacific at Valparaiso—there being no agent at Agnew—informed us that we could not have any more cars unless we had the grain in sight at the time of ordering them. This, of course, was impossible without a place to store the grain, and for a time we were shut out of business.

"Immediately after the issuance of this order, which came from the general offices at Omaha, I went to the division superintendent, James Foley, whose office was at Lincoln. He informed me that the orders came from headquarters, and that they applied not to Agnew alone, but to every station on the Union Pacific, including branch lines. But then and there he granted us a site for the erection of an elevator. He said that the thing for us to do was to begin at once to build an elevator, no matter how small, just so it would hold a carload of grain, had a dump and a leg, and could be loaded into the cars.

"We went to work without delay and built our little elevator. We were driven to resort to numerous schemes to keep the information from getting to Omaha until such a time as the elevator would be so far along that no powerful and antagonistic influences could stop us. We succeeded and our elevator was completed.

"Again we bought grain from farmers. We paid what it was worth, taking a margin of 1 to 1½ cents on corn and oats for our profit. Our competitor did but a small business. In fact, though paying no higher price, our firm was able to buy 75 per cent of the grain that came to the station.

"And then the trouble began.

"It was not long before we discovered that the prices paid by our competitor—and consequently the prices we had to pay—were higher than at surrounding places that took the same freight rates to Mississippi River points and to Chicago. We were at a loss to understand this. But when we figured the freight rate we readily reached the conclusion that our competitor was trying to drive us out of business.

"Day by day, then, the X Elevator Company continued to turn the screws a little tighter. They gradually boosted the price until they were paying the farmers ¼ cent a bushel more for their corn than we could get for it, and these prices were paid to any and all who had grain to sell.

"In this crisis it was the same with us as it has been uniformly,

in similar fights, with other dealers. We found that the farmers will sell their grain to whoever will pay them the most, without ever taking into consideration the reason for those higher prices.

"It was in November, 1897, that I first met the secretary of the competing company. The meeting occurred in their office at Omaha. He told me that they wanted their share of the grain coming to Agnew.

"I told him, as bluntly, that they were entitled to all they could get, and at whatever price they saw fit to pay for it. I said I did not see by what right he asked me to turn business from our elevator to their elevator.

"Then I explained to him that my brother and I had spent our boyhood in the vicinity of Agnew; that our father had homesteaded near there in 1866; that we knew personally every farmer within a radius of 20 miles, knew his family and children, how many horses and cows and pigs and chickens he had, how much he owed and to whom, and when it came due. It was owing to this acquaintance, I pointed out, that we could buy more grain at the same price than his company could buy.

"He said he was well aware of all that, but they had their investment at Agnew, and had to keep a man there to look after their business, and it was necessary that they should have their share of the grain coming to the station.

"The conversation came to an end without either of us having made any progress. As I sat in the car riding home I could plainly see that the X Elevator Company was going to demand one-half of the grain coming to the station, and I then and there made up my mind to fight that demand as long as I had left a dollar that would enable me to do so. Every cord and fiber of my being rebelled against entering into any such agreement. I thought then, and do now, that the grain business is a legitimate business and that every person, firm, or company in it is justly entitled to a reasonable compensation for the money, time, intellect, and ability employed, but that it, like all other honorable occupations, should be conducted on the broad lines of live and let live.

"Soon after my visit we ceased to receive any bids for cash grain from the X Elevator Company, although we had been receiving them for some time. This was proof that they did not care to do further business with us. We began at once to seek an outlet for our corn to feeders and purchasers of single carlots in Kansas and Missouri, and because we succeeded in this were able to continue paying the same prices at Agnew paid by our competitor, which was more than the grain was worth on the regular market. The X Company evened up through being able, at that time, to get a commission from the different railroad companies in rebates and transfer charges, of which I will have something to say further along.

"During the winter and spring the auditor of the company visited Agnew several times, and finally called on us. He asked us, straight

out, if we were willing to enter into an agreement to make a division of the grain coming to the station.

"To this, and to all subsequent propositions of a like character, we returned a decided negative.

"He said, 'You will have to, or go out of business.'

"To this I replied that that might be, as I recognized the facts, and knew that his company had more capital, by far, than we had. But, I told him that we were not frightened by his threats of financial destruction, as we both had good health and an inclination and desire to work; that we were relying on our own judgment, ability, and intellect to make a success or failure out of our business.

"After this the battle grew fiercer and more furious. Grain began to be hauled to us through towns 10 miles distant, and we were looked upon as being about the only grain firm in that section of the country. The traveling freight agent of the Burlington Railroad called on us, and wanted to know how we could pay such prices for grain and where we disposed of it for a profit. He said that his company was losing business every day on account of the high prices prevailing at our place, and as a representative of the Burlington Railroad he would like to see this 'disturbance' settled, so his company could get the tonnage that belonged to it at stations located on its right of way. His visit was prolonged, but he went away without any encouragement as to what could and would be done by us.

"Soon after this we were called upon by a representative of the Union Pacific freight department. He also wanted to know if this 'disturbance' could not be settled. He said that the other roads were very anxious to have it stopped as they were losing business. To all this I listened with an attentive ear. When he was through I told him that we would never consent to an equal division of the grain at that point with the X Company except they earned their half by hustling for it.

"Some time in the spring of 1898 a representative of the Chicago and Northwestern Railroad came to see us. He wanted to know why the prices paid for grain at Agnew could not be adjusted with prices paid at other points, and had the same complaint to make about his road losing business. He, like the others, went away without accomplishing anything, and the fight continued as before.

"And then there came in sight around the bend the beginning of the end; an end as sure to come as that the sun will rise in the morning; an end made inevitable by the fact that we were fighting a great corporation that had dollars to our dimes and many other elevators from which to recoup the losses sustained at Agnew.

"We began to notice that, do the best we could, work all day and scheme all night, our profits were slowly but surely growing less and less. We learned in bitterness of spirit the elementary lesson that, in order to make any money out of the business we must be able to sell the grain for more than we paid for it.

"When things were running along in this way another repre-

"And so the deed was done. We were defeated and whipped into line, at last, and our dream of independence was ended. We had fought the good fight as honestly and courageously as we knew how, my brother and I—and had lost. Hereafter we and our business would be but as a cog in a great machine.

"As the train sped across the fertile Nebraska fields carrying me homeward I looked out of the car window upon mile after mile of ripening corn and thought of what had happened. I wondered if every man who embarked in the grain business had to do as I had done. I was half tempted to think that I had failed because I was young and green in the business, and that a stronger and more experienced man than I might have succeeded in maintaining his independence. Since then I have learned that my fate was the common fate of all.

"I played fair with our 'competitors,' and they, too, lived up to our agreement. In a short time I found myself becoming careless and indifferent in the prosecution of our business. Why not? When farmers drove up and asked me the price of grain it made little difference to me whether I bought, or the other fellow. I knew if he got overly anxious and ambitious and got more than his share all I had to do was to go and tell him to reduce his price in accordance with our agreement, and the business would come to us. We both had the same prices. They came from the same office, made out by the same clerk, mailed at the same time, although, be it admitted, in separate envelopes.

"It was rather amusing, at times, to see some farmer, anxious to make a good sale, working various schemes to break this combination. He could try—but that was all the good it did him. For I was watching the other fellow, laying for an opportunity to get his forfeit of $100, and he, over in his office, was watching me. However, neither of us ever violated the agreement, and after a year or two the money was taken down." [4]

Fate of Independent Grain Dealers.—Mr. Worrall's experience was duplicated in whole or in part by hundreds of independent grain dealers. They had to conduct their business in compliance with the dictates of the opposing syndicates, go out of the grain business, or face utter ruin. In the article from which a lengthy quotation has already been made, Mr. Refsell describes the situation as follows:

"Many had the courage to keep up the hopeless struggle with the syndicates until their private fortunes were practically swept away, after which they were forced to give up the vain attempt and retire from the grain business. The syndicates, however, usually wished to retain one or more independent dealers at each station after these had been brought into perfect submission. The appearances of competition would thus be kept up and less opposition to the situation

[4] Worrall, Thomas D. The Grain Trust Exposed, pp. 19, 20, 21, 22.

would be developed, while perfect control would still be retained in the hands of the syndicates.

"When the control of the country grain buying by the large syndicates was complete, conditions in the industry had undergone a radical change. The farmer with grain to sell was no longer master of the situation. Instead of having a large number of grain buyers gather about his load, when the grain was brought to town, eagerly outbidding one another to secure the coveted grain, the farmer was then forced to go to the offices of the different elevators to inquire as to the price of grain. At each of these places he would receive the same report. The managers of the different elevators seemed no longer desirous of purchasing the farmer's grain, but, on the other hand, would appear sullen and indifferent. It was natural that no particular desire for the grain should be manifested as the profits would usually be pooled so the returns to the individual grain buyer would be practically the same regardless of who might make the purchase.

"Being owners of warehouses at the primary markets, the Line Elevator companies had a great advantage over other grain buyers. Whenever it became necessary for them to store their grain they would store it in their own warehouses and so pay storage charges to themselves. Other grain buyers, however, having no warehouses, would be forced to pay storage charges to their own competitors when it became necessary for them to store their grain. Mr. John Hill, Jr., states the situation very clearly in a letter dated January 2, 1907, written to Governor Charles S. Deneen, Attorney General W. H. Stead, and States' Attorney John J. Healy.

"In 1887 or 1888 the late P. D. Armour conceived the idea of combining the buying and selling of grain with the public warehousing of grain, so that he, as a grain dealer, would be paying the storage to himself as a warehouseman, and all competitors who were forced to use the public facilities provided by the state for the storage of grain would have to pay tribute to Armour if they used the houses which he was licensed to operate. Within five years Armour and the others who followed his plan had driven out every public warehouseman and since 1892 Chicago has not had a real public warehouse for the storage of grain.

"The public warehouses operate under licenses received from the state. They are created for the benefit of the grain trade, and should not be so operated as to give undue advantage to their own managers, who are supposed to be storers of grain and not dealers in grain. Therefore, in 1896, Judge Tuley granted an injunction which prohibited public warehousemen from storing and mixing their own grain with that of others who made use of the public warehouses provided by law. In affirming this decision the Supreme Court of Illinois made the following comment:

> "The public warehouses established under the law are public agencies, and the defendants, as licensees, pursue a public employment. It is clothed with a duty toward the public. The evidence shows that defendants, as public warehousemen storing

grain in their own warehouses, are enabled to, and do, overbid legitimate grain dealers by exacting from them the established rate of storage while they give up a part of the storage charges when they buy or sell for themselves. By this practice of buying and selling through their own elevators the position of equality between them and the public whom they are bound to serve is destroyed and by the advantage of their positions they are enabled to crush out competition in the largest grain market in the world.'' [5]

Line Companies Worked Together.—In the early years, competition was usually keen between the independent buyers, and at times there was competition between the different ''line'' companies. The situation is described as follows by the Federal Trade Commission:

''This competition gradually led to various agreements among elevators, especially in the territory west of the Mississippi, with reference to prices, the pooling of purchases at particular stations, and other practices all more or less designed to decrease or eliminate competition. In the late nineties and early years of the present century such arrangements were quite generally characteristic of country marketing conditions. In the Northwest these practices appear to have been especially prevalent among the commercial line companies which were so largely developed in this area. Most of these companies had their headquarters in the terminal market, and it was therefore a comparatively simple and easy thing to perfect arrangements as to competition between the houses of these companies at local stations. Farther to the south and east, in Nebraska, Iowa, and Illinois, where the independents were relatively more important than the lines, both types of houses were involved and the restriction of competition was accomplished through the various state associations of grain dealers, to which associations both the independent and line houses quite generally belonged.

''The situation which existed in the Northwest territory, tributary to Minneapolis, even as late as 1905, may be illustrated by the following quotations from the testimony of Mr. A. J. Hoskins before the Interstate Commerce Commission, November 22, 1906:

Mr. Marble. Have you at the present time charge of any arrangement for pooling the grain or dividing the business at country stations?

Mr. Hoskins. No sir.

Mr. Marble. You have had in years past, have you not?

* * * * * *

Mr. Marble. But as to some of these arrangements in August, 1905, were there agreements to pay penalties on excess grain purchases?

[5] American Cooperative Journal, Sept., 1914, pp. 19, 20.

Mr. Hoskins. Yes; I think so.

Mr. Marble. How many such agreements would you say there were in August, 1905?

Mr. Hoskins. Do you call each station an agreement?

Mr. Marble. Yes; how many points?

Mr. Hoskins. I do not know; perhaps a couple of hundred.

Mr. Marble. In what states were those stations located?

Mr. Hoskins. Well, Minnesota, South Dakota, and North Dakota.

* * * * * *

Mr. Marble. I will ask you first, were these agreements of the same general nature and form at these 200 points?

Mr. Hoskins. Yes, sir; I think so.

Mr. Marble. What was the form and nature of that agreement?

Mr. Hoskins. Well, it was to figure a penalty on—of course, first it was decided what percentage each company was entitled to, and then those that got more than their share there was a penalty figured and those got less than their share received the penalty.

Mr. Marble. What was that penalty generally?

Mr. Hoskins. Two and a half cents on wheat, and in some cases 2 cents on barley and rye, and flax was $3\frac{3}{4}$ and oats were 2 cents.

Mr. Marble. Each of the buying elevator companies rendered a statement to you?

Mr. Hoskins. Of their receipts; yes, sir.

Mr. Marble. You figured who had the excess and the amount due from the ones getting the excess?

Mr. Hoskins. Yes, sir.

Mr. Marble. And also to whom that money was to go?

Mr. Hoskins. Yes, sir.

Mr. Marble. You had the clearing house, as it were, for this business?

Mr. Hoskins. Yes, sir.

Mr. Marble. Who paid you for that service?

Mr. Hoskins. Why, I do not know that anybody did. I made an assessment to cover the expense of my office, based on the number of elevators that each company had, and I sort of did this other service for nothing.

* * * * * *

Mr. Marble. Now, did all the people having these arrangements—they also got prices from you, did they not?

Mr. Hoskins. Yes, sir.

Mr. Marble. Was it any part of the contract that they pay the card prices?

Mr. Hoskins. No.

Mr. Marble. Simply a division of the grain at the point, with a penalty to be paid on the excess?

Mr. Hoskins. Yes, sir.

Mr. Marble. And a share for the one not getting his proportion?

Mr. Hoskins. Yes, sir.

Mr. Marble. Was there any other feature in the contract?

Mr. Hoskins. No.

Mr. Marble. Were those written contracts?

Mr. Hoskins. No, sir.

Mr. Marble. Oral?

Mr. Hoskins. Yes, sir.

Mr. Marble. How often did you render statements?

Mr. Hoskins. Once a month generally.

Mr. Marble. Those statements took the form of "So-and-so elevator company to Hoskins, debtor"?

Mr. Hoskins. No; we ran them by numbers, because it was easier and shorter to write than the name of the company.

Mr. Marble. And you made a statement of the amount due them and the amount due from each one?

Mr. Hoskins. No; if they had a debt, I showed that, and if they had a credit I showed that.

Mr. Marble. Not as to any person in particular?

Mr. Hoskins. No.

Mr. Marble. To whom was the money paid?

Mr. Hoskins. To me.

Mr. Marble. To you?

Mr. Hoskins. Yes, sir.

Mr. Marble. And by you distributed to the parties entitled to it under the arrangement?

Mr. Hoskins. Yes, sir.

Commissioner Lane. What was the total number of elevators in that arrangement?

Mr. Hoskins. I should say 40—oh, elevators?

* * * * * *

Mr. Marble. Did you have charge of such arrangements as this from the beginning of the time you sent out the prices?

Mr. Hoskins. Yes, sir; I think so.

Mr. Marble. And you testified that that was about eleven years ago you began?

Mr. Hoskins. Yes, sir; eleven years ago the first of August last.

Mr. Marble. What date would that be—1895, would it not?

Mr. Hoskins. I guess so; yes, sir.

Mr. Marble. And you had charge of such arrangements for paying penalties on surplus grain purchased and dividing the grain for approximately ten years—no, eleven years?

Mr. Hoskins. No; ten; not more than that.

Mr. Marble. Yes; ten; that is right.

Commissioner Lane. Mr. Taylor informs me that there were

about 950 elevators according to your statement, in this pool. Would that be approximately it?

Mr. Hoskins. Why, approximately; yes, sir." [6]

Grain Dealers' Association.—In nearly all, if not all, of the important grain-surplus states the grain buyers had formed a state association before the end of the nineties. At first these associations discussed such problems as freight claims and terminal inspection but they soon turned the major portion of their energy to more productive ends. At all meetings, state and district, the representatives of the line companies are said to have advocated harmony and the importance of doing nothing to "disturb business." All dealers in a given territory were urged to pay the same prices, taking a margin sufficient to cover all risk and assure a good profit. As the independent dealers were brought into the association, competition decreased. If a dealer would not come in and persisted in paying such prices as he pleased he would be punished by his competitor as was Tom Worrall. If he would not agree to pool, some one of the line companies was always ready to buy him out. The paid secretary of the association was the active agent in keeping everything running harmoniously.

Price Committees.—In some of the states a price committee was appointed which decided each day the maximum price that members of the association might pay for grain. Thomas D. Worrall, who was a member of the board of directors of the Nebraska Grain Dealers' Association at the time the Nebraska price committee was instituted, describes their method of procedure:

"A price committee of five men was created and authorized to make and control the prices to be paid farmers for all the grain they had to sell. A map of the state was obtained and thirteen groups or districts were created. . . .

"It was agreed that this committee should take Chicago prices as a basis to figure from, and at all times fix a margin of not less than 2 cents on corn and oats, and 4 cents on wheat, and from 4 to 7 cents on rye, in the Chicago market. Of course, if the grain could be sold at Kansas City, St. Louis, Buffalo, Louisville, Cincinnati, and other terminal markets for more money, well and good, there was no fault to be found, by any member of the association, with this.

"About this time the farmers' shipping and farmers' elevator organizations were springing up rapidly in different parts of the state, and especially in the western portion, as well as in northern Kansas. The object of the committee was to make prices uniform, commencing at the Missouri River and running west the entire length of the state wherever there was any grain raised to be shipped. For

[6] Hoskins, A. J. S. Document 278, 59 Congress, 2d Session, pp. 932, 940–942.

in this way it could be insured that farmers would not become dissatisfied with prices that were to be paid. If there is anything that aggravates a farmer more than anything else, it is for him to take a load of grain to his station, and on his way home meet Farmer Brown who has sold a load of grain at another station at a better price. They stop and chat for a few moments, and one says to the other:

"Where have you been?
"Why, I have been over to . . . station with a load of corn.
"What did you get for it?
"I got forty and a half. What have you been hauling for?
"Why, I hauled a load of corn over to . . . station and only got forty cents.

"The conclusion arrived at right then and there is that one farmer did not get what his corn was worth, and that he was robbed of a half cent per bushel. He goes home. The next day being Sunday, he takes his wife and family, and drives over to visit farmer C. While there he tells the circumstances surrounding the selling of a load of corn the day before. The two of them agree there is something wrong, and they are not long in beginning to agitate for the organization of a farmers' elevator.

"It was to provide against any and all such contingencies that the price committee was created, so as to have prices uniform and satisfactory. The farmer would then feel that when he received the same price for his grain that was being paid at surrounding points he was actually getting all that it was worth, because he knew there were different elevator concerns operating at these places, and so would be led to believe that there was competition in the business, never dreaming that prices were made by five individuals, and that these prices so made controlled all prices in the grain-growing counties of the state of Nebraska."[7]

It was finally decided that five of the most important line elevator companies should constitute the Nebraska price committee. They were to confer together each day at 1:30 by long distance telephone and decide upon prices for the next day. Other centrally located line companies were then called and told the changes in price, if any. The price was then given to some clerk in each office, who filled in and mailed out price cards to all agents and operators along a certain line or lines of railway. Each line company not only sent the price to its own agents but also to its "competitors" at the different towns.

In describing the way in which the system worked out, Worrall says:

"Now all that the dealers had to do was to pay the card price, take what grain came to them, and ask no questions as to where the

[7] Worrall, Thomas D. The Grain Trust Exposed, pp. 70, 72, 73, 76.

cards came from, as no one seemed to know, as they were not signed by anyone, nor did they bear the name of the town from which they were mailed. The single-house men and independent dealers in the country would pay the large companies 50 cents a month for the expense of sending out these cards. They would address a pack of self-addressed envelopes and then send them to headquarters or wherever they were instructed to send them. These cards, bearing the prices, would come back regularly, and with no friction whatever."

No one need think that the uniformity of prices fooled the farmers. The leaders felt certain that the grain dealers were in combination. The secretary of the Kansas Association was arrested for a violation of the state anti-trust law, convicted, and sentenced to a term in jail. This seemed to make the various associations somewhat more careful.

Nebraska Association Members Sued by State.—The attorney general of Nebraska filed a suit against a large number of the members of the Nebraska Association, charging them with having formed a combination in restraint of trade in violation of the anti-trust laws of the state. A referee was appointed to take the evidence and report his finding in fact and conclusions of law. He made a comprehensive report based upon the evidence submitted by the state. The defendants presented no evidence. Perhaps there is no better way to illustrate the strength and policies of the state associations than to quote from this report:

"Sometime prior to the year 1899, an association known as the Nebraska Grain Dealers' Association was organized in this state, which adopted a constitution and by-laws under which it operated. Its officers consisted of a president, vice president, secretary, treasurer, and a governing board consisting of the president, secretary, and three other members of the association.

"The object of such association, as expressed in the preamble of its constitution, was the advancement and protection of the common interests of those regularly engaged in the grain business, the formulation of rules for the transaction of business, the formulation of rules for the relations among legitimate grain men of the state. Any regular grain dealer, receiver, or commission firm might become a member. . . .

"According to the evidence introduced by the state (there was no evidence introduced by the defendants) the main objects of said association were to fix, regulate, and control the prices of grain in this state; to put an end to competition in the grain business; and to drive out of business all irregular and independent dealers in grain.

"There were about 1,200 grain dealers, all told, in the state on April 1, 1905, of whom about 770 belonged to said Nebraska Grain Dealers' Association, and about 200 more were in sympathy with such association.

"To accomplish the objects of said association as above set forth, various expedients were resorted to by it, some of which were as follows:

(*a*) A price committee, consisting of persons chosen from five of the leading corporation members of said association, was formed whose business it was to fix the prices which should be paid for grain by the various members and said dealers who worked in harmony with said association. All such members and persons were notified by card what such prices were, and as members of such association and regular dealers they were expected and required to fix their bids for grain on the basis of the prices sent to them on the cards, and they were not to pay any more for grain than other regular dealers in the same locality. For the purpose of facilitating the business, the state was divided into thirteen districts, and it was the duty of some member of the association, selected for that purpose on account of his or its superior location and facilities for that purpose, to send cards to all the regular dealers in his district. The prices were changed as often as the fluctuations of the market made it necessary, sometimes every day, and sometimes less often. The new prices always went into effect on the morning of the day succeeding the issuance of the cards and never on the same day. In said manner and by said method uniformity of prices was maintained amongst the members of the association and other regular dealers over the state. Regular dealers were those who were in harmony with the purpose and objects of said association.

(*b*) In a town where there were two grain dealers, if one or both of them were 'irregular' and refused to abide by the prices sent out on cards as aforesaid, the association resorted to various methods to force such dealer or dealers to become 'regular.' The committee of the association, or someone appointed by it for that purpose, would send some person or persons to visit such 'irregular' dealers whose business it was to prevail upon such dealers to agree to abide by the prices fixed as aforesaid, and also to agree upon a division of the grain marketed at said station between them, so that there would be no competition between them in the purchase of such grain. In this the person or persons so sent out were generally successful. If a dealer at any point persisted in being 'irregular,' he was summarily dealt with according to circumstances. If weak financially, prices would be raised on him so that he could not make any money and he would be forced to surrender or get out of business. If he was strong financially, so as to make such a proceeding as that just named unprofitable for the association, the bidders in the market where he sold would be prevailed upon to bid him less than the market price for his grain, so that he could not sell for as much as the 'regular' dealers. By such means the 'irregular' dealers were generally either driven out of business or forced to become 'regular' dealers.

(*c*) The association also made it a part of its business to look after legislation in order to prevent any laws from being passed which were unfavorable to the interests of the 'regular' dealers. The testimony shows that during the 1903 session of the legislature several thousand dollars were spent by the association through its agents in trying to prevent unfavorable legislation.

(*d*) The farmers' grain and elevator companies were the special aversion of the Nebraska Grain Dealers' Association, and the latter exerted themselves greatly to prevent the former from getting into and doing business in this state. The railroad companies were labored with to induce them to refuse sites for elevators to be put up by farmers' elevator companies. The members of the association and other 'regular' dealers refused to deal with farmers who shipped their own grain, or with farmers' elevator companies, and also with any person who would deal with such 'irregular' dealers.

"The evidence shows that, by such means as the foregoing and other means not herein mentioned, the said Nebraska Grain Dealers' Association attempted to, and did, in a large measure, fix and control the prices paid for grain throughout this state; prevented competition in the grain business; and largely monopolized the grain business in this state."[8]

The court approved the findings of the referee.

A Decrease in Monopoly.—The Nebraska Grain Dealers' Association, alarmed at the possible outcome of the suit, passed out of existence before the decision of the court. In other states the associations restricted their activities. As the power of combination waned, competition increased. In towns where the farmers believed that the price of grain was not a truly competitive price, they usually proceeded to organize a farmers' elevator company. The rapid development of these companies forms one of the most interesting chapters in the history of grain marketing and is one of the most important and characteristic of all farmer movements.

SUGGESTED READINGS

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[8] Nebraska Supreme Court Reports, Vol. 75, pp. 655–658.

CHAPTER V

THE BEGINNING OF THE FARMERS' ELEVATOR MOVEMENT

The American farmer has always been characteristically independent. He has been independent not only in his actions but also in his thinking. He has opposed machine rule whether political or economic and has usually been a foe to special privilege. Ordinarily conservative, he has, when roused to action, made possible the adoption of new and sometimes apparently radical ideas. The Grange legislation of the seventies paved the way for the Interstate Commerce Commission, for the Railway Commissions of the various states, and for many statutes regulating not only railways but other public utilities, such as the telephone, telegraph, and express companies. The Australian ballot, the direct primary, the initiative, and the referendum first gained popularity in agricultural states. Our four latest constitutional amendments, providing for the direct election of senators, the Federal income tax, equal suffrage, and national prohibition, owe their adoption to the impetus gained in rural communities. We find that states where a majority of the people live in large cities have nearly always opposed new and progressive legislation. The tendency "to follow the herd" is apparently greater among men who work and live in close touch with their fellows than among men who are alone enough of the time to have opportunity for independent thought and action.

Farmers' First Attempts at Cooperation.—Long before the formation of the state grain dealers' associations many farmers sensed a lack of competition among the grain buyers. The papers which they read carried reports of the grain markets at Chicago, Kansas City, or Minneapolis; they learned the freight rate from their local shipping point to the terminal market; they obtained information concerning commission for selling and other handling charges and were able to estimate fairly accurately the margin taken by the local elevator. Stories of rebates obtained from the railways by large shippers and of the raising of grades at terminal elevators led them

to believe that the profits were often much larger than was indicated by apparent margins.

Many farmers' elevator companies were formed in the eighties, but few survived long. The farmers were expert in raising grain, but had had little opportunity to learn anything about marketing it and were ignorant of the principles of cooperation which the Rochdale Pioneers had used so successfully.

A single farmers' elevator stood little chance of remaining long in business when competing with a strong line company. The line company would raise the price of grain to a point at which it could not be handled at a profit. If the manager of the farmers' company met the price and bought grain which must necessarily be sold at a loss, his company with its limited capital would soon be bankrupt. If the farmers' elevator company did not meet the prices of its competitors, some of its stockholders would become dissatisfied and sell their grain where it would bring them the largest returns. Other members would gradually follow their lead, until the farmers' company was not handling enough grain to pay current operating expenses. The strong companies would often circulate stories concerning their ability to sell grain, leaving the farmer to infer that his company was poorly managed. Loss of money was usually followed by loss of confidence. Dissolution of the company was the almost inevitable result.

A line company, adequately financed, could well afford to lose five or ten thousand dollars at some one station while disposing of a competitor. Its other elevators were being operated at a profit. As soon as the competitor was disposed of, the price of grain at that station was always lowered so that the company could make good any loss it had sustained. The farmers not only had to stand the loss on their own elevator business, but ultimately had to stand the loss sustained by their competitors during the fight.

Someone may say that the farmers were very short-sighted not to realize that selling to a competitor would bankrupt their own company. Perhaps they were, but before censuring them too severely we should remember that these companies organized under regular corporation laws paid dividends only on capital stock. If a man remained loyal he was increasing the earnings of other members of his company who might be taking advantage of the high prices offered by their competitors. When grain was low in price, as it was during the eighties and nineties, selling in fact much of the time for less than actual cost of production, an increase of even one cent a bushel

was important. Twenty-one cents a bushel for corn, for example, is 5 per cent more than 20 cents. The farmers were woefully short of capital, ignorant of cooperative principles, unskilled in marketing, and had no one to whom they could turn for help.

The Penalty Clause.—The idea which made it possible for farmers' elevators to prosper in spite of unfair competition was born at Rockwell, Iowa, in 1889. The farmers felt that the two "regular" dealers were not paying a fair price for grain. Encouraged by other efforts at cooperative marketing, William Barragy started soliciting for membership in an elevator to be located at Rockwell. Other men assisted him, and when 100 members had been secured a meeting was called and an organization effected. They were particularly careful in electing their first board of directors, selecting men who had a high standing in the community and who had confidence in the ultimate success of the cooperative elevator.

John Beardsley applied for the job of running the elevator. When asked how he proposed meeting his salary, he said by charging a certain percentage on the grain handled. From that suggestion the president of the new company, N. Densmore, worked out a schedule of commissions and the idea that they must be paid even though the grain was sold to a competitor. This new idea, which distinguished the plan of organization of the Rockwell company from those that preceded it, soon came to be known as a "penalty clause" although it might more properly have been called a "protection clause." The way in which the rule worked and protected the new elevator company from being beaten by organized monopoly has been described as follows:

"The 'Penalty clause' provided that the members were to pay into the treasury of the company a commission of one half cent per bushel for every bushel of grain sold either to their own company or to their competitors. The half a cent a bushel which the farmers paid when they sold the grain to their own company represented approximately the cost of handling the grain. It was estimated that this income would be sufficient to enable the company to continue in business. In order not to be deprived of this income, even though some members of the company should sell their grain to a competitor who would bid so high that buying the grain would mean a loss, the company definitely provided that its members should pay into its treasury one half cent for every bushel of grain which they sold to a competing elevator.

"Under this arrangement the farmers' company would not be so greatly tempted to bid a high price against a competitor when doing so would probably involve a loss. Neither could the company be

ruined by the high prices paid by a competitor, even though these high prices would prevent the farmers' company from securing any grain. The income of the company would still continue to be as great as before, while its expenses would be slightly reduced. In reality, its condition would be improved by its being outbid by its competitor for the grain marketed by its own members.

"With the untried penalty clause as the only weapon upon which they could rely, the farmers of Rockwell entered the fight against the line companies. The latter tried their old method of outbidding the farmers' company. This, however, did not bring about the ruin of the company as it had done in previous instances. Other plans were also tried, but proved to be equally unavailing. The competition continued as fiercely as ever until finally the ingenuity of the line elevator companies was exhausted and they abandoned the struggle in despair. The fight had been so severe, however, that it was only the extraordinary determination of the farmers, and their willingness to impose upon themselves a sufficient tax, in the form of the penalty mentioned above, to support their own organization, which permitted the farmers' elevator company to live through its struggle. One observer has described the incident in the following words: 'There in Rockwell, a little village of less than five hundred souls, was waged one of the fiercest commercial battles ever fought on American soil; every trick of trade known to the modern political jackal and commercial bandit was tried and failed, and a final and complete victory won by the farmers of Cerro Gordo County.' "[1]

Slow Growth of Cooperative Elevator Movement.—During the nineties comparatively few farmers' cooperative elevator companies were formed. This slow increase was due to a variety of reasons, among which the following were probably most important:

1. Comparatively few farmers knew of the success of the Rockwell company. A scanning of the files of many publications does not disclose that any story of its plan of organization was carried in any state or national paper for many years.
2. The fight at Rockwell was so bitter that farmers in other communities who did learn something of their plan naturally hesitated before making a similar attempt.
3. There was no farm organization interested in cooperative grain marketing. The Grange had been unfortunate in most of its business ventures in the seventies and at this time had but a small membership. The Alliance had decided that relief for the farmers could best be secured through political agencies, and as a result lost its opportunity for effective farm

[1] Refsell, O. N. American Cooperative Journal, Vol. 10, No. 3, pp. 209 and 210.

leadership. The Farmers' Educational and Cooperative Union and the Equity Union did not enter the field until a later period. No one had yet dreamed of the Farm Bureau Federation.

4. The agricultural colleges were small and were neither investigating nor teaching marketing. There was not a single county agent to whom farmers could appeal for information.
5. No Grain Belt state had an adequate cooperative law, and most of these states had no cooperative law.
6. In the earlier years of the decade there was competition between buyers at many towns in at least a considerable part of the Grain Belt. There were, of course, local pools and agreements which sometimes extended over a considerable area, as did the one formed in southeastern Iowa as early as 1883. That particular combination was exposed and soon lost its power. It was a long job to whip all the independent buyers into line, and not until near the end of the nineties was the monopoly practically complete.
7. During the financial depression which followed the panic of 1893 grain prices were low. Many farmers had difficulty in purchasing the barest necessities. They had no money with which to purchase an elevator and could not begin business with so small a capital as did the Rochdale Pioneers.
8. Perhaps more serious than any other difficulty was that of securing an elevator site. If there were two or more elevators in a town the railroads claimed that they offered ample competition and grain marketing facilities. In Iowa this view was upheld by the State Railway Commission. In other states the railroads either refused to grant sites [2] or wore the farmers out with delays while referring the matter from one official to another.

Railroads Compelled to Grant Sites.—So bitter did the elevator-site question become that in Minnesota, Nebraska, and Iowa the state legislatures passed acts requiring railroads to grant sites to farmers' elevator companies. The Nebraska law was in part the indirect result of a bitter contest waged at the village of Virginia, in Gage County. Larry McClure gives the following story of the fight:

[2] Senate Document, 278, 59th Congress, 2nd Session, p. 577. Testimony of D. J. Gates of Albion, Nebraska. P. 591, Testimony of S. McMurray. P. 515, Testimony of C. M. Andrus.

"For several years Virginia had three independent buyers who furnished real competition not only for one another, but for the line companies located in nearby towns. The prices paid drew grain for several miles beyond the limits of normal trade territory. In the fall of 1900 one of the elevators was sold to the Nebraska Elevator Company. Efforts were at once made to get the other buyers, who were 'disturbing business' by paying good prices, to get together and agree to take a little larger profit.

"According to Thomas D. Worrall, at that time Secretary of the Nebraska Elevator Company, the following agreement was entered into on July 1, 1902, in Room 78 of the Paddock Hotel in Beatrice:

> 'Agreement by and between J. V. Allen and Joel Dobbs of Virginia, Nebraska, and the Nebraska Elevator Company of Lincoln, Nebraska.
>
> 'J. V. Allen agrees to close his elevator at Virginia this date, July 1, 1902, and keep it closed until March 1, 1903, and to do no grain business of any kind at Virginia station during the time this agreement is in effect. And Joel Dobbs and the Nebraska Elevator Company agree to pay J. V. Allen on the 1st and 15th of each month 2 cents per bushel on 25 per cent of all the corn and oats coming to the station and 4 cents per bushel on 25 per cent of all the wheat. And as a guarantee that each party will comply with his part of this agreement we will deposit with Henry Gund at Lincoln $100 each in cash to be paid by him to the party rightfully claiming the same.'

"Farmers who had sold grain to Mr. Allen for years were greatly surprised and disappointed when his elevator closed. Some of them glimpsed the facts in the case when the price of grain at Virginia fell. Competition ended, and Mr. Allen enjoyed a rest and his 'pension' until April, 1903, when Mr. Gund returned his $100.

"Soon after this the railway officials were induced to order Allen to move his elevator off the right-of-way.

"Mr. Allen moved his office and scales and sold out to a farmers' elevator company which had been formed because of the low prices paid for grain. The farmers wanted to build a larger elevator and applied for a site. They were refused. They then built an elevator on private ground and asked the railroad to put in a switch. The railroad again refused. The farmers brought suit. Finally the railroad made overtures for peace and the suit was dismissed. The farmers were given their siding, and since then Virginia has had a real grain market.

"Among the farmers who were dissatisfied with grain marketing conditions at Virginia after the closing of the Allen elevator and who bitterly resented the action of the railroad company was Joe Ramsey. So incensed did he become that he became a candidate for the Legislature upon a platform having but a single plank—the passing of a law that would compel railways to grant sites to elevator companies. Mr. Ramsey had lived in Gage county for many years and had many

friends. The voters liked his platform and knew that he would spare no effort to secure favorable legislation. He was nominated by his friends and elected by a substantial majority.

"The legislative session of 1903 was featured by the demands of the farmers for relief from the domination of the line elevator companies. Various measures were introduced, among them House Bill No. 73 better known as the "Ramsey Elevator Bill." The elevator magnates were frightened. They contributed liberally to the support of a lobby, one of the members of which afterward admitted that $4000 was expended in addition to the time and expenses of various line elevator owners. In spite of the lobby the bill passed the House. In the Senate an amendment was slipped in which made the body of the bill broader than the title and therefore unconstitutional. In this form it was passed and the House concurred in the amendment. Months after the legislature adjourned, Mr. Ramsey and other members discovered that the lobby had defeated them. The apparent defeat was, however, to some extent a victory. Public opinion had been so thoroughly aroused that the railways refused to bear the brunt of the fight for the line elevator companies. Where the demand was insistent, as at Virginia, they granted sites and the farmers' companies began a steady growth which has since continued without interruption." [3]

"Scoop-Shovel" Houses.—With the decrease of competition among grain buyers in the late nineties and the resultant tendency to take larger profits, the farmers began to think more about marketing their products for themselves. Attempts were made to order cars and ship grain direct, but this was frustrated by the railroads refusing cars to shippers unless they had a carload of grain in sight. This order was circumvented at some shipping points by the erection of "scoop-shovel" houses, that is, small storehouses near the railroad track which would hold from one to six carloads of grain. When one of these contained as much as a carload of grain, the railroads were required "to set" a car—since the grain was "in sight." The grain would then be loaded on wagons and scooped into the car. Such houses usually raised the price of grain.

At a hearing of the Interstate Commerce Commission in 1906, C. Vincent testified in part as follows:

"*Mr. Marble.* Your shovel houses—are they profitable also?

Mr. Vincent. Well, I cannot say that there is much profit in them. We about break even.

Mr. Marble. What prompted the establishment of grain-buying shovel houses where you did?

Mr. Vincent. We did not have capital enough to subscribe to put up a house, so we commenced in a small way.

[3] The Nebraska Farmer, June 29, 1918, p. 920.

Mr. Marble. Why did you commence at all?

Mr. Vincent. For the simple reason that where those elevators are the farmers did not consider that they were getting enough for their grain, and they wanted their own facilities.

Mr. Marble. How long have your shovel houses been in operation?

Mr. Vincent. A little over a year.

Mr. Marble. What effect have they had on the market?

Mr. Vincent. They raised the markets, the same as the elevators.

Mr. Marble. As much as the elevators?

Mr. Vincent. Yes, sir; about the same.

Mr. Marble. From 2 to 2½ cents?

Mr. Vincent. Yes, sir.

Mr. Marble. And you consider that they are not operated at a loss?

Mr. Vincent. No, sir.

Mr. Marble. But they are not making any profit?

Mr. Vincent. They are not making any profit to amount to anything. We are pretty well satisfied if we break even.

Mr. Marble. Do you consider that a practicable way to handle grain?

Mr. Vincent. No, sir.

Mr. Marble. The practicable thing to do is to put up an elevator?

Mr. Vincent. Yes, sir.

Mr. Marble. But you consider them valuable as means of competition?

Mr. Vincent. I do not regard them so much in that light as I regard them as stepping stones to an elevator. I think, at least in my experience, a great many farmers are afraid to take hold unless you demonstrate to them that there is a profit. We can begin in a small way with a shovel house, and when they see that there is some profit, that we are making some profit out of it, they accumulate courage.

Mr. Marble. Have your shovel houses been as fairly treated by the railroads as your elevators?

Mr. Vincent. Yes, sir."[4]

The success of the scoop-shovel houses and the few farmers' elevators in operation increased the agitation among the farmers for their own elevators. The railroads usually succeeded in preventing their getting a site. Those that did succeed in getting started in business found plenty of opposition. The Federal Trade Commission discusses the situation as follows:[5]

[4] Senate Document, 278: 59th Congress, 2nd Session, pp. 496, 497.

[5] Report of Federal Trade Commission on Grain Marketing, Vol. 1, pp. 86, 87, 88.

"About 1900, or a little earlier, the farmers' elevator movement began to meet with determined opposition from the older types of houses. In part at least this opposition was due to the employment by many of these houses of the penalty-clause plan first employed by the Rockwell Co. Before the introduction of this plan it had often happened that when a farmers' company was organized the older competing elevators paid more than the market would warrant for the purpose of breaking down the farmers' company by making the farmers dissatisfied with the business upon which they had embarked.

"As the penalty clause required the farmer to pay a cash penalty if he hauled elsewhere than to the farmers' house, it had two effects. It tended in the first place to divert all of the business of member farmers to the farmers' house, and in the second place to render nugatory efforts of competitor companies to destroy the farmers' organization by the method of local price raising. This kind of competition, said G. E. Marcy before the Interstate Commerce Commission, 'is mighty hard competition to go up against. Whenever I hear of a farmers' elevator starting in I always try to sell them our elevator.'

"The warfare against the cooperatives assumed the most serious proportions in the Chicago territory. Outside this area little indication has been discovered of any organized attack upon this type of house. In North and South Dakota and Minnesota the opposition to the cooperative came chiefly, of course, from the old line companies, there being comparatively few of the independents in this territory. The grain dealers' associations apparently did not develop there to such an extent, nor did they exercise as much influence as in the area farther south. Moreover, the Northwest territory was younger and was rapidly developing. It was not so well supplied with elevators as were the older States, and there was probably more room for new elevators than in the older territory.

"**State Grain Dealers' Associations Boycott Cooperatives.**—In the Chicago territory the attack on the cooperatives assumed about the same form as similar wars conducted in various other industries and trades against so-called irregular dealers, and in Iowa, Nebraska, and Illinois the state associations of grain dealers, composed largely of commercial line and independent elevator operators, refused recognition to cooperative or farmers' elevators as well as scoop shovelers.

"The following is a portion of a bulletin of the Iowa Grain Dealers' Association from the files of the Interstate Commerce Commission, which indicated the attitude of the association and its refusal to recognize cooperatives:

(Bulletin No. 1)

Iowa Grain Dealers' Association,
Secretary's Office,
Des Moines, Iowa, Aug. 10, 1902.

To members:

The Iowa Grain Dealers' Association does not recognize scoop-shovel shippers, farmer elevator companies that are organized to

agitate markets, or dealers (shippers, bidders, or receivers) who refuse to arbitrate differences as between buyers and sellers. We give below a list of such located in Iowa; also show changes in firms.[6]

(The letter listed 58 firms, twelve of which were farmers' companies.)

* * * * * *

"Having refused the cooperatives recognition as regular dealers, the State associations and also various individual members brought pressure to bear upon terminal market receivers and bidders in an effort to prevent them from handling cooperative grain. This pressure took the form of threats of boycott and of actual boycott by the association and its members of those terminal concerns failing to confine their operations to the so-called regular dealers belonging to the association. The following letters sufficiently illustrate these operations:

Secretary's Office,
Nebraska Grain Dealer's Association,
Board of Trade Building,
Omaha, Nebr., Nov. 23, 1903.

H. G. Miller, Sec'y-Treas.

The Kemper Grain Co.,
Kansas City, Mo.

Gentlemen: I am advised that you are receiving wheat shipments from the Axtell Farmers' Company at Axtell, Nebr. If this is a fact, beg to advise that this is a farmers' organization which has in its constitution a penalty clause, penalizing its members for selling grain to other than its own Company. This is a restraint of trade, contrary to good business principles, and I believe, contrary to the statutes of Nebraska.

I give you this information, believing that you are not aware of the conditions. You will not I trust, think there is anything arbitrarily intended by my calling your attention to this matter. As I will be expected to make report to those interested, would you kindly favor me with a prompt reply.

Yours truly,

H. G. Miller, Sec'y.

* * * * * *

Iowa Grain Dealers' Ass'n,
Geo. A. Wells, Secretary & Treasurer, Des Moines, Iowa,
Des Moines, Iowa, Feb. 17, 1903.

Eschenberg & Dalton,
Chicago, Ill.

Gentlemen: We desire to advise you that the Iowa Grain Dealers' Association does not recognize Farmers Elevator Companies or-

[6] Relations of Common Carriers to Grain Trade, I.C.C., Doc. 875, Vol. II.

ganized for the purpose of agitating local markets or that work on the assessment plan.

We shall use all legitimate means possible to protect our members from such competition, a competition that if successful, means that the grain dealer who should earn a legitimate profit must go out of business.

We state our position plainly in this matter in order that you may decide upon such a policy in regard to doing business with these Farmers Elevator Companies as you may consider for your own best interests, and hope that you will continue to work in harmony with us.

The Farmers Elevator Co's., that we do not recognize are as follows:

Farmer's Incorporated Society	Ruthven, Iowa.
Farmer's Co-operative Association	Rockwell, Iowa.
Farmer's Elevator Company	Gowrie, Iowa.
Farmers Elevator Co.	Garden City, Iowa
Farmer's Elevator Company	Badger, Iowa.
Manly Grain Company	Manly, Iowa.
Farmer's Elevator Company	Kensett, Iowa.
Dunbar Grain & Stock Company	Dunbar, Iowa.
Lawler Grain & Live Stock Ass'n	Lawler, Iowa.

You will understand that it is my duty as Secretary of this Association to keep the members informed in regard to the disposition and conduct of bidders and receivers.

Yours truly,

Geo. A. Wells, Secretary.

* * * * * *

Illinois Grain Dealers' Association
Office of the Secretary,
Decatur, Ill., Feb. 24th, 1904.

To Members:

Enclosed you will find report of the Advisory Committee of the National Association, on terminal conditions at Memphis, Tennessee. Please read it carefully. It should be of interest to every shipper of grain whether he ships to Memphis or not. You will notice that in selling to Memphis firms, you must depend entirely upon the facilities and responsibility of the firm to whom you sell. The letter from Secretary Greaves of the Merchants Exchange shows the benefits to be derived from Association work, and every dealer should give it their moral and financial support.

For your information I will state that a few receivers of grain are said to be soliciting business from irregular dealers, scoopers, and Cooperative companies. We do not question their right to do this, but as such companies and combines, are generally understood to be organized to eliminate the regular dealer (or so-called middle man), persons who accept their business are

supposed to be in sympathy with their views. If this is correct they cannot be in sympathy with you, or your business. You must be the judge of this yourself.

I give you below the names of parties supposed to be receiving such business:

(Nine firms named)

Yours truly,

Geo. Beyer, Secretary.[7]

This boycott was so complete that the business of the commission firms accepting shipments from "irregular dealers" was practically destroyed. C. G. Messenole, Secretary of the Farmers' and Grain Dealers' Association of Iowa, testified[8] that at one time, because of this boycott, only two Chicago firms, Lowell Hoit and Company and Eschenberg and Dalton, would handle their shipments. Conditions at other markets were but little different, and the few independent receivers were under constant pressure to keep them from accepting farmers' shipments.

Railroads Favored Regular Dealers.—The following letter was introduced as evidence by D. J. Gates of Albion, Nebraska, at a hearing of the Interstate Commerce Commission.

Secretary's Office,
Nebraska Grain Dealers' Association,
Board of Trade Building,
Omaha, Nebr., August 28, 1903.

A. S. Ingersoll, Colorado Springs, Colo.

Dear Sir: We are informed that the Albion Elevator Company, at Albion, Nebr., offered you some oats and corn on the 26th of this month. Thinking possibly you are not aware of the nature of this firm's business, beg to advise that they have an elevator but it is situated away from track, thus compelling them to load from wagons into cars just the same as though they had no elevator. These facilities do not entitle them to be classed as regular. We will greatly appreciate anything you may do for the regular trade at this point, the regular dealers being the Omaha Elevator Company, Omaha; the Westbrook-Gibbons Grain Company, Omaha, and the Nye, Schneider, Fowler Company, Fremont.

Yours truly,

H. G. Miller, Secretary.[9]

[7] Relations of Common Carriers to Grain Trade, I.C.C., Doc. 875, Vol. II.
[8] Senate Document No. 278, 59th Congress, Second Session, p. 646.
[9] Senate Document No. 278, 59th Congress, Second Session, p. 572.

Mr. Gates gave the following explanation of why their elevator was not built on the sidetrack:

> *Mr. Marble.* Is your elevator on the railroad right of way?
> *Mr. Gates.* Yes, sir.
> *Mr. Marble.* Have you a sidetrack?
> *Mr. Gates.* Yes, sir.
> *Mr. Marble.* You had trouble getting a sidetrack for a while, did you not?
> *Mr. Gates.* Yes, sir.
> *Mr. Marble.* Why did you have that trouble? Was there any statement from any railroad official?
> *Mr. Gates.* The railroads told us in the start we were not legitimate people; not legitimate men doing a legitimate business; that we were blackmailers and destroyers of business; that they would not grant us a track or place to build.
> *Mr. Marble.* Who told you that?
> *Mr. Gates.* Mr. Charlie Lane, first assistant freight agent, I think, is his position.
> *Mr. Marble.* Of what road?
> *Mr. Gates.* The Union Pacific.
> *Mr. Marble.* That is all?
> *Mr. Gates.* And Mr. Bidwell told us that he did not consider that we had any right to ask for room to build an elevator; they had four elevators there and that was quite enough, and they had no time to listen to our talk and applications; that if they were to grant anyone a site for an elevator they had applicants before us. He finally said that, after a long parley.
> *Commissioner Clark.* How long did you operate before you got a sidetrack to your elevator?
> *Mr. Gates.* Well, I could have told that to the day, if I looked it up. I think three or four weeks; possibly less. We went on and built our elevator.[10]

Mr. Ingersoll believed that there was a good understanding between the Nebraska Grain Dealers' Association and the railroad, or at least one of the employees of the railroad, as evidenced by the following letter:

> Colorado Springs, Colo., September 5, 1903.
>
> Albion Elevator Company, Albion, Nebr.
>
> Gents: Your letter 4th received, notifying shipment of car of oats for which we are much obliged. Your draft on same will have prompt attention and will remit balance on arrival of car.
> Can you offer us another car for shipment, say, next week;

10 Senate Document No. 278, 59th Congress, Second Session, p. 577.

do not wire on this; suppose the agent there is the operator. We think he is giving away your business; for this reason do not like to use the wires to your place. Please to keep this to yourself.

Yours truly,

A. S. Ingersoll.[11]

Some of the grain firms, even though "regular," objected to too much dictation. Funsten Bros., of St. Louis, explained to the Albion Elevator Company a commonly used method of keeping the railroad station agent from finding out the name of the firm to whom the grain was actually being shipped.

Funsten Bros. & Co., Commission Merchants,
St. Louis, Mo., U. S. A., October 12, 1903.

Albion Elevator Company,
Albion, Nebraska.

It is in order to state right here that prior to opening your letter we received from another source notification of shipment from you to the effect that you are not situated on the right of way and are compelled to haul in wagons and load into cars, and that your constitution contains a penalty clause penalizing your members from selling to other than your own company. We are members of the National Grain Dealers' Association in good standing and affiliate with all the State Associations; therefore for the present when you consign anything to St. Louis consign to the "Albion Elevator Company, St. Louis, Mo." Indorse your bills of lading over. We ask you to do this until we can answer the other inquiry and ascertain facts. We are in the grain business for the commission it pays, and we are not going to throw anything away from us that we have a legal and equity right to handle, and from the tenor of your letter we see nothing that should prohibit us from handling your business. Write us fully and frankly and anything that you write to us will be strictly confidential, and please also regard what we write to you in the same way. We think that you fully understand our position in the premises, and let your trade come along in the manner that we suggest above—that is, for the present to bill to your own order. Someone seems to be keeping tab on shipments originating in your state.

Yours truly,

Funsten Bros. & Co.[12]

[11] Senate Document No. 278, 59th Congress, Second Session, p. 575.
[12] Senate Document No. 278, 59th Congress, Second Session, p. 573.

Some Results of the Boycott.—The Federal Trade Commission sums up the situation as follows:

"The direct results of this boycotting of commission houses handling cooperative or farmers' elevator grain were not entirely satisfactory, however, since the policy caused one or two such commission concerns to do everything possible to foster the farmers' elevator movement. A good illustration of this is found in the case of the foregoing concern, Eschenberg & Dalton, now Brennan & Carden. When the 'regular' shippers boycotted this organization the firm met the emergency by sending one of their solicitors, Mr. E. G. Dunn, into the field to organize farmers' elevators. 'Dunn was said to be,' quoting from the interview with Mr. Brennan, 'a whirlwind, a flame.' He organized on the average eight elevator companies in every ten towns visited. In this manner the trade of the farmers' houses was turned to this firm, and it has been well maintained ever since.

"While the efforts of the regular country grain dealers against the cooperatives were undoubtedly a temporary handicap to the latter, the foregoing policy of interference was from every angle a short-sighted and mistaken one. In fact there is every reason to believe that it very greatly stimulated the development of the cooperatives, for in the action taken by the regular elevators to suppress the movement the farmers undoubtedly saw the confirmation of all, and in fact much more than all, that they had believed as to the prices they were paid for grain by the existing elevator concerns, as to their methods and practices in general." [13]

The Farmers' Fight.—In spite of the opposition and the boycott the farmers' elevators continued to increase in numbers. In Nebraska, an agricultural paper, *The Central Farmer*, espoused their cause in 1902 and helped arouse enthusiasm for cooperative marketing by the publication of information upon local market conditions. Mr. Vincent, who was then the editor, makes the following comment on the part the paper took in the fight:

"On September 4th it called attenion to the statement of *The Teller* of York, Nebraska, to the fact that an elevator at Benedict worth $2000 had been sold for $5000, and that another at McCool worth $3000 had changed hands for $10,000.

"The farmers of Benedict were denied a site on which to build for themselves, and they built on ground adjoining the right-of-way, and spouted the grain across the intervening space to the cars.

"On November 6th following it was shown that line elevators at Ragan were buying wheat on a margin of 7 cents a bushel which would equal an extortion of about $3,000,000 a year for the state in

[13] Report of the Federal Trade Commission on the Grain Trade, Vol. 1, p. 91.

excess of a reasonable profit. Following that showing it was argued as follows:

"Where does the money go?

"The general appearance of the country elevators does not bespeak wealth, and therefore, many unthinking people imagine there is no profit in the elevator business. The mistake lies in not recognizing that nearly all elevators are owned by non-resident syndicates who spend their gains in Minneapolis, Chicago, or Omaha. One elevator system in Nebraska last year, in spite of our poor crop, paid themselves large salaries for supervising the business, and in addition paid back to the stockholders in 'net profits' nearly 50 per cent of the capital invested.

" 'Does your farm do as well?'

"In the same issue was described the shipping at Moorefield where the farmers wanted to ship their own crops without waiting to build a modern elevator. A horse-power elevator was procured but the railroad company refused to permit its use in loading, so the farmers were compelled to shovel the wheat into the cars while the little elevator stood idle beside the right-of-way.

"On January 15, 1903, Hon. D. W. Baker wrote from Benedict some of his experiences as follows:

> "On November 13th, two days before our elevator began receiving grain, the local buyers were paying 46 cents a bushel for the best wheat offered. The day we began doing business they were paying 48 cents and by the last of the week they were paying 50 cents, the Kansas City price remaining the same through the period, being about 64 to 65 cents a bushel for No. 3 wheat.

"In Phelps County, then sparsely settled, Mr. A, living near town, sold some wheat early in the day at a certain price. Mr. B arrived from a distance about noon with an ox-team. He learned the market price of wheat before reaching the elevator, but the owner offered 5 cents a bushel less than he had paid to Mr. A. He decided to feed the cattle and think it over, and drove a couple of blocks away. In the afternoon Mr. A hitched his own team to the load and driving around as though coming from home, sold the wheat at the same price that he received in the morning."[14]

Farmers Organized State Associations.—Early in January, 1903, a call was issued by several well-known Nebraskans for a meeting in Lincoln, January 22, for the purpose of organizing a State Farmers' Grain Dealers Association. So keen was the interest that more than 500 persons packed the Lancaster County court room where the first state meeting was held, while others who could not crowd within the

[14] Vincent, Cuthbert. *Early Struggles of the Cooperative Movement in Nebraska*, pp. 35–37, Nebraska State Historical Society, Lincoln.

doors thronged the hall outside. Of this number 228 were accredited delegates representing 66 localities in 35 counties. Few meetings of farmers have ever aroused such intense interest among the men in attendance, and few other meetings have secured such important results.

The Ramsey Bill, of which mention has already been made, was before the legislature at the time, and one of the acts of the newly organized association was to give it endorsement. Upon their return home delegates and visitors began spreading information about the need for the enactment of the Ramsey Bill, into law. Members of the legislature began to hear from their constituents. Mr. Vincent, who had been appointed state organizer, received more calls for his help than two men could have filled. The opposition had only served to advertise cooperation.

The farmer elevator companies of Illinois were but little behind Nebraska in the formation of a state association. They met for that purpose at Springfield, February 19, 1903. At that time there were only about 15 such companies in the state.

The next year, 1904, the Farmers' Cooperative Elevator Company of Rockwell issued a call for a meeting of delegates from farmers' elevator companies in Iowa to form a state association. This meeting was given wide publicity and about 200 men were present, including delegates from 39 cooperative societies.

These state associations and those in other states that were organized later became nuclei of cooperative activity. They were always ready to furnish information to communities wishing to organize a cooperative elevator company. Usually one of the officers would attend organization meetings to explain the advantages of marketing grain cooperatively.

In 1905 a monthly trade journal for farmers' elevators was started at Chicago. It printed stories of successful cooperatives and furnished information to managers. Unquestionably it did a great deal to hearten farmer members and to encourage the organization of new companies.

Cooperatives Defeated the Boycott.—With the rapid increase in the number of the farmer-owned companies which followed the organization work of the independent receivers, the formation of the state cooperative elevator associations, and the enactment of legislation requiring the railways to grant sites to cooperative elevators, the volume of grain shipped by the cooperatives increased. The regular dealers began to feel the effect of their own boycott. As a result the

various state associations changed their rules to exclude from membership only those farmer companies which operated under a penalty clause. The following letter illustrates the stand of "regular" dealers:

Omaha, Nebraska, January 16, 1905.

Elgin Elevator Company,
Elgin, Nebraska.

Gentlemen: We have yours of the 15th and note all you say very carefully. Just as soon as your penalty clause is eliminated, we will be very glad to give you prices and hope to be able to do some business with you.

Thanking you in advance for your future favors, we are

Very truly yours,

Geo. A. Adams Grain Company,
J. E. Von Dorn, Vice President.[15]

A few of the farmer companies were won over, repealed the penalty clause, and became "regular" dealers. The majority retained their independence and marketed their grain through the companies that had helped them out when no farmer-owned elevator was recognized.

The jail sentence and fine imposed upon the secretary of the Kansas association, the suit instituted by the Attorney General of Nebraska against members of the Nebraska association, and the popular indignation that arose as a knowledge of the practices of the associations became general tended to discourage the activities and opposition of the state associations. They did not wish to be convicted of breaking either state or Federal anti-trust laws. The opposition of the railroads practically ceased after the investigation by the Interstate Commerce Commission in 1906. The light of publicity had come to the aid of the farmers.

The rapid increase in the number of farmers' elevators which began about 1900 continued unchecked, until almost every shipping point in the Grain Belt either had a farmer-owned elevator or felt the influence of such companies in nearby towns. The number of companies organized annually has decreased somewhat since about 1920 because of the thorough occupation of the field. It is believed that at the present time (1928) they exert a greater influence on grain marketing than at any preceding time. No other phase of co-

[15] Senate Document No. 278, 59th Congress, Second Session, p. 575.

operative endeavor in America has accomplished such important financial results as the cooperative elevator movement of the Grain Belt.

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CHAPTER VI

ESSENTIALS TO THE SUCCESS OF THE COOPERATIVE ELEVATOR

In 1889 the first farmer-owned elevator operating upon a workable plan was established at Rockwell, Iowa. Fifteen years later there were probably fewer than 200 farmers' elevator companies and many of these had been in operation less than four years. In 1926 there were 4300 farmers' elevators in the United States, owned by more than 600,000 of the most prosperous, permanent, progressive farmers in the Grain Belt and serving over five million people. The movement has spread far beyond the states where it gained its first impetus, so that now there are farmer-owned elevators in nearly every state included in the great triangular area with the states of Pennsylvania, Texas, and Washington at the three angles. The list of companies by states is as follows:

TABLE II

COOPERATIVE ELEVATORS IN THE UNITED STATES *

Colorado	99	Missouri	200	South Dakota	330
Idaho	20	Montana	95	Texas	12
Illinois	608	Nebraska	396	Utah	2
Indiana	140	North Dakota	432	Washington	45
Iowa	467	Ohio	261	Wisconsin	93
Kansas	430	Oklahoma	150	Wyoming	6
Michigan	95	Oregon	9		——
Minnesota	413	Pennsylvania	1	Total	4304

* This list compiled from reports furnished by secretaries of cooperative elevator associations in the grain belt states, from estimates furnished by the American Cooperative Journal, and from a report upon Farmers' Business Organizations published by the U. S. Department of Agriculture.

These elevators have an average paid-up capital and surplus of about $20,000, or a total investment in grain-marketing facilities of more than $86,000,000. The Federal Trade Commission found that the farmers' elevator companies handled annually an average of

152,000 bushels of grain. This would give a total volume of grain handled of nearly 800,000,000 bushels, which is more than one-half of the grain handled by the 21,000 country grain elevators in the United States. Nearly all of these elevators also handle coal, salt, and other farm supplies. The total sales of these sidelines is estimated at about $150,000,000 annually. This far surpasses in value the volume of business of any other type of cooperative marketing in the United States. There are other single cooperative enterprises with a much larger capital and volume of business than any one of these farmers' elevator companies, but the combined volume of business of the farmer-owned elevators is greater than the volume of business of any one cooperative company or group of cooperative companies in the United States engaged in the sale of any one product or group of closely related products.

The achievements of the cooperative elevator companies have not been as widely heralded as have the plans and hopes of some of the cooperative companies marketing other products. They have taken pride in accomplishment rather than in publicity. They have increased in numbers and in importance because they filled a real need. The farmer elevator movement has never been under the necessity of employing either spectacular methods or high-pressure salesmen.

The number of companies and the volume of their business are excellent testimonials of their success.

Influence of the Cooperative Elevator Movement.—The value of the cooperative elevator movement to the Grain Belt farmer cannot be measured by the number of elevators, by their volume of business, or by the capital invested. They influence, either directly or indirectly, the price paid for nearly every bushel of grain that is purchased for shipment outside of the county where it is grown. In early chapters has been told the story of grain-marketing conditions that forced the farmers into the business of marketing their own grain. The cooperatives have regulated local prices where competition had ceased; they have been far more potent in dealing with pools and combinations than the anti-trust or anti-discrimination laws of the various states. Their influence is felt in towns where there is no farmer-owned elevator. Every grain buyer knows that unless prices compare fairly favorably with those prevailing in towns which have cooperative elevators the farmers will organize and market their grain themselves. The cooperative elevators dominate local grain prices in three ways, depending upon conditions:

1. By actually handling the grain.
2. By maintaining a competitive price which non-cooperative grain buyers must meet.
3. By furnishing potential competition to towns which have no farmer-owned elevator.

Not all the farmer's market troubles are ended, but they no longer center in the local elevator. The younger generation of farmers has barely heard of the conditions that existed twenty-five years ago. Our fathers did their work well and settled very satisfactorily, and probably for all time, that particular type of market problem.

Essentials to the Success of Cooperative Elevators.—There are always certain essentials to the success of any enterprise; there are always causes which underlie any great business development. What have been the principles upon which the farmers' elevator companies have operated, and why has this cooperative movement had such a wonderful development?

Born of Necessity.—The cooperative elevator movement was born of necessity. Grain growers felt that too large a charge was being made by the "regular" elevators for taking their grain to the terminal markets. They saw grain companies start out with a small

capital and become wealthy. Farmers believed, and in many localities knew, that there was no competition in price between local elevators. In order to reduce marketing costs and get the price for their grain which the terminal market justified they had to furnish a part of their own marketing machinery. This meant the organization of an elevator company and the purchase or erection of an elevator.

In the early years of the farmers' elevator movement, there was no general knowledge in America of the principles upon which the Rochdale Pioneers had built their business. As has already been stated, not a single state had a satisfactory cooperative law upon its statute books. It was therefore necessary for the farmer companies to incorporate under the general corporation laws of the various states and conduct their business according to the legal rules laid down for an entirely different type of business. The farmer-owned elevators succeeded not because of favorable laws but despite unfavorable laws. The members held together because of the economic importance of the elevator, and also because in the majority of companies the "penalty clause" made it difficult for them to be disloyal.

Stock Ownership and Control Decentralized.—As the movement developed, the leaders began to see that the legal provisions which met the needs of an ordinary corporation were not well adapted to a cooperative association. In the ordinary corporation, for example, there is usually no objection to the stock ownership centering in the hands of a relatively few persons. In fact the average man who buys a few shares of stock in a bank or manufacturing plant ordinarily buys it because of his confidence in the men in control. The casual buyer does not expect to take any active part in the management of the company in which he invests. He is on the lookout for profits and buys where the prospect seems most favorable. Many of our large corporations, railroad companies for example, are actually controlled by much less than a majority of the stock, because so many stockholders take no part in electing the board of directors. So long as the company earns good dividends the average stockholder is satisfied.

The cooperative company is organized for savings rather than profits. The members are not so much interested in their capital stock returning big dividends as in being able to buy or sell to better advantage. It would therefore be unfortunate for the stock ownership to be centered in a relatively small number of men, since they might operate the business so as to make possible the payment of

large dividends on stock, when the capital stock had had only a small part in making possible the earnings.

The first farmer-owned elevators usually bought grain on a relatively narrow margin so that the net earnings of the companies were not large. The companies that were most ably managed accumulated a surplus, and sometimes fixed their dividend rate considerably above the normal rate of interest. Almost invariably under such conditions there was a tendency for the number of members to decrease. As men removed from the neighborhood or died and their estates were settled, their stock ordinarily passed into the hands of a small group of men. As the number of members decreased, the elevator became less and less a community project and farmers felt less obliged to patronize it.

One-Man, One-Vote, an Essential to Cooperation.—In ordinary corporations a member's voting strength is in proportion to his stock ownership. This idea is so well established that it has been written into some of the state constitutions. For example, until amended in 1920, the Nebraska constitution required "that in all elections for directors or managers of incorporated companies, every stockholder shall have the right to vote in person or by proxy for the number of shares of stock owned by him." Nebraska cooperative companies are now relieved of this archaic provision and may adopt the "one man, one vote" rule, but for many years companies that wished to be truly cooperative dodged the law by means of an agreement among their members that each would cast but a single vote, although legally permitted to cast one vote for each share of stock owned. The "one man, one vote" rule is quite generally conceded to be one of the essentials to the success of a cooperative elevator company.

Limit Dividends on Stock.—A second essential is the limiting of dividends on stock to current interest rates, because members who have sold their grain to the farmers' company, even when a competitor bid more, will not continue loyal if men who have sold little or no grain realize large dividends on stock.

Patronage Dividends.—Undoubtedly the most important principle of cooperation is the patronage dividend. The author of the Nebraska Cooperative Law of 1911 recognized this in the first section of the law, which reads as follows:

"For the purpose of this act, the words "cooperative company, corporation, or association" are defined to mean a company, corporation or association which authorizes the distribution of its earnings in part, or wholly, on the basis of, or in proportion to, the amount of

property bought from or sold to members, or of labor performed, or other service rendered to the corporation."

This law was later adopted almost verbatim by Indiana and Colorado.

In order to see clearly the distinction between paying all the profit to capital stock and paying a patronage dividend, let us study a hypothetical balance sheet. The ordinary balance sheet goes much more into detail than the one here presented.

BALANCE SHEET

ELDORADO FARMERS' ELEVATOR COMPANY

December 31, 1921

Assets		*Liabilities*	
Cash (on hand or in bank)..	$5,487.34	Notes and bills payable	$5,000.00
Grain and merchandise inventory	11,236.00	Depreciation reserve	600.00
Fixed assets (land, buildings, and equipment) .	14,400.00	Capital stock ..	20,000.00
		Surplus	1,000.00
		Loss and gain..	4,523.34
	$31,123.34		$31,123.34

If the company is an ordinary corporation it could readily declare a 20 per cent dividend on the capital stock of $20,000 and add to the surplus the $523.34 which would then remain in the loss and gain account. The stockholders could certainly count it an unusually successful year and doubtless each one would wish that he owned a larger share in the enterprise.

If the company paid a patronage dividend, the stockholders would receive only a nominal rate of interest, probably only about 6 or 8 per cent. Let us suppose that the elevator handled 164,326 bushels of grain and made approximately the same profit on each bushel without regard to the kind of grain. Many elevators declare dividends at different rates on corn, wheat, and oats, in accordance with the profits made on each kind of grain. Wheat, for example, is always higher in price than oats, necessitating a larger investment and greater risk. It is, therefore, usually handled on a wider margin than oats and if there is no loss should show a larger profit per bushel.

It is a little simpler to pay one rate on all kinds of grain, so that method is here used.

The company naturally wishes to increase its surplus, realizing that in times of declining prices and car shortage even the best-managed elevator may suffer a loss. The board of directors might, therefore, decide to divide the profits as follows:

Interest on investment, \$20,000 @ 7%	\$1,400.00
Patronage dividend, 164,326 bu. @ 1½ c	2,464.89
Addition to surplus	658.45
Total gain	\$4,523.34

Let us now compare the possible dividends of various members of the company under the two methods of distributing profits.

ORDINARY CORPORATION

Member	Investment	Rate of Dividend	Amount of Dividend
A	\$1,000	20 per cent	\$200.00
B	500	20	100.00
C	300	20	60.00
D	200	20	40.00
E	100	20	20.00
F	400	20	80.00
G	100	20	20.00
All other members	17,400	20	3,480.00
			\$4,000.00
		Carried to surplus	523.34
		Total gain	\$4,523.34

The men who had invested the most money received the largest amount of dividend regardless of the amount of business furnished to the company. It is inevitable under this plan that some stockholders will receive as dividends the earnings accumulated from the handling of their neighbor's grain.

When earnings are distributed in proportion to the patronage, men are paid in proportion to the business that they furnish. This may make quite a difference to many members, as can be seen by comparing the following statement with the one immediately preceding.

COOPERATIVE COMPANY

Member	Investment	Dividend on Stock at 7 Per Cent	Bushels of Grain Sold	Patronage Dividend of $1\frac{1}{2}$ c. per Bushel	Total Dividends
A....................	$1,000	$70	....	....	$70.00
B....................	500	35	1,532	$22.98	57.98
C....................	300	21	876	13.14	34.14
D....................	200	14	3,824	57.36	71.36
E....................	100	7	5,920	88.80	95.80
F....................	400	28	2,236	33.54	61.54
G....................	100	7	980	14.70	21.70
All other members.....	17,400	1218	148,958	2234.37	3452.37
Total members......	$20,000	$1400	164,326	$2464.89	$3864.89
				Carried to surplus	658.45
				Total gain.......	$4523.34

Seven per cent is a good return for the use of money, so that A ought to feel well satisfied. B has also received a very good return. Although E owned but a single share of stock he was paid the largest dividend. He furnished more business than did anyone else, and it is volume of business which makes possible a low overhead cost upon each bushel of grain handled. Had no member furnished any more grain than did A, C, and G, it is very doubtful if the elevator company would have paid operating expenses.

Three Essentials to Cooperation.—The three principles most essential to the success of a farmer's elevator company are the same three principles that were most essential to the success of the Rochdale Pioneers:

1. One man, one vote.
2. Dividends on stock limited to current interest rates.
3. Division of profits in proportion to patronage.

These three principles may, therefore, be said to be the essentials of business cooperation. Without them the business is likely to fail in time, even though the enthusiasm and loyalty of the members may carry it through the first few years.

There are, however, other factors necessary to the success of a farmers' elevator company besides its being cooperative in form. Lacking them, cooperative elevators have sometimes failed, and farmer-owned companies possessing them have succeeded even though they did not adhere to any one of the three essentials. A study of these other factors is, therefore, necessary before taking even the preliminary steps looking to the organization of a company.

Need for an Elevator.—It has long been an axiom among cooks that the first step in the cooking of a rabbit is to "catch the rabbit." Likewise, before a cooperative elevator can be operated successfully there must be grain for sale. In some localities where the volume of grain sold is small, the grain is bought on a wider margin than in not distant towns where the volume is larger. This is necessary because the cost of doing business lowers as the volume of business increases. The locating of a second elevator in such a community might merely divide the business, and increase, instead of decreasing, the local elevator margin. Where the volume of grain marketed is not large enough to utilize fully a single elevator and keep the manager busy, the erection of a second elevator and the hiring of a second manager doubles the local expense of marketing grain. The invested capital upon which interest must be paid is doubled as are also taxes, depreciation of building and equipment, and cost of labor. The erection of a second elevator at a point where the volume of business is small is, therefore, justified only when the buying margin has been unusually large. If the cooperative company can either purchase the old elevator or secure as members nearly every grain producer in the community, its venture is much more likely to become profitable.

Farmer Must Feel Need.—Nearly all of the most successful elevators have been "born of necessity." Just how great was that necessity has been told in the chapters describing the Grain Trust and the Farmers' Elevator Movement. Not only must there be grain to sell but it must be grown by men who wish to sell through their own elevator, and who are willing to make sacrifices, if necessary, in order to carry their products one step farther on the road to the ultimate consumer. There must be no hesitancy or doubt in the minds of cooperators if they are to succeed.

When grain prices are relatively high and everyone feels prosperous, farmers think less of the margin between the local price of grain and terminal market quotations than when prices are low and every available dollar is needed for purchasing supplies and paying interest. When corn, for example, is selling for 80 cents per bushel

the farmer is much less likely to think of marketing costs and possible methods of reducing them than when it sells for 30 cents. One or 2 cents extra per bushel when grain is selling for less than cost of production may actually mean more to the farmer than 5 cents per bushel when prices are high and profits good.

Prosperity is usually accompanied by a laxity in financial matters. When we make large profits with little effort, we scrutinize not only the source of the money but our expenditures much less carefully than when profits are small or entirely disappear. We like to do things the easy way and let some one else carry the responsibility. When faced by necessity the average person becomes more alert and is willing to give careful attention to buying and selling and to do more for himself if by so doing he can secure a larger profit.

The organization of an elevator company is a serious business undertaking. Capital must be secured. This usually means that each one of a hundred or more farmers must have faith enough in cooperation to risk his money in a business enterprise. They must raise this money even though times may be hard and it means the practicing of rigid economy in the home and in the operation of the farm. The men who serve as officers must give considerable time to the organization and management of the company, and this time is necessarily taken from their own private business. Men who are chosen for such positions of trust are usually busy men. They must be willing to sacrifice their own time and convenience to the promotion of a community enterprise. No business that is really worth while manages itself. The new cooperative company often enters an unfriendly field, and the officers must so manage its affairs that not only will savings be secured but that the members will remain loyal and the good will of the local business men and non-member farmers may be secured.

All things considered, it is not surprising that few cooperative elevators or other cooperative companies have succeeded except where necessity has caused men to study market conditions and to assume the risk and work necessary in order to organize and operate their own company. The most accurate method of measuring the desire for a cooperative elevator is by offering an opportunity to subscribe for stock. If farmers really feel the need of an elevator they will buy stock. Desire becomes demand only when backed by money.

Ample Capital is Essential.—The average investment in a cooperative elevator and equipment has been estimated[1] to be $10,000,

[1] Millard Myers, Formerly Editor, American Cooperative Journal.

and the operating capital $10,000 additional. This includes the surplus. In Nebraska the farmer-owned elevator companies have an average paid-up capital stock of nearly $15,000, not including surplus. The average total invested capital in this one state, including surplus and subtracting deficits, is a little more than $17,000.[2] This capital is somewhat irregularly distributed among the companies. A few have ample capital but others have too little to serve as security for loans. In Nebraska about one-fourth of the companies have less than $10,000 paid-up capital. It is little wonder that managers and directors often complain of having difficulty in paying for grain and meeting other obligations.

Probably more difficulties arise from a shortage of capital than from any other one cause. To build and equip an elevator that will prove satisfactory to the average community costs at the present time from $10,000 to $30,000, depending not only upon the size but upon location, kind of material used, and type of construction. If an elevator has a capacity of 20,000 bushels and is three-fourths full of grain valued at $1 per bushel, another $15,000 is required. The company may also have grain en route, for which they have not received payment in full. Many cooperative companies carry stocks of coal, lumber, tankage, mill feeds, and farm supplies. Where it is planned to do this, additional capital is necessary. An elevator need not be very large to require at any one time an investment of $50,000. It is usually easier to raise the required capital when the shares of stock are $100 each than when they are smaller.

Utilization of Credit.—It is not necessary for an elevator company to have sufficient paid-up capital and surplus to finance all its operations. It should have enough to take care of all normal operations and borrow money to carry the peak load. It is better business to pay the banker interest upon a part of the necessary capital for two or three months each year than to pay the stockholders dividends on capital which is utilized but a small part of the year. More companies get into financial difficulty because of an over-extension of credit than fail to use their credit to the full advantage. A discussion of credit limitations may be found in the chapter entitled Financing a Cooperative Association.

It has often been suggested that the farmers should organize non-profit, non-stock companies and borrow all funds used in operating. Companies of this type are discussed at length in later chapters. For the present it is sufficient to say that neither banks nor individ-

[2] Shorthill, J. W., Secretary, Nebraska Cooperative Elevator Association.

uals lend money without security. If the company has no assets, the members must furnish security. The average Corn Belt landowner prefers to buy capital stock in an elevator company instead of securing its borrowings.

Demand for credit sometimes exceeds available funds. In the autumn of 1920 many cooperative elevator companies were limited in purchasing grain by the money shortage. They had too little ready capital. Under such conditions the firm that has been borrowing to the limit is in a much more serious situation than the one that has sufficient capital for normal business use.

Get the Money at Time of Organization.—Good business practice demands that a cooperative elevator company have sufficient capital not only to construct an elevator but to buy a reasonable amount of grain. The time to raise the money is when the company is being organized. There is often more enthusiasm at the very outset than after matters have settled down into successful routine. Unless the producers in the territory tributary to the elevator are willing to furnish sufficient capital the grain business would better be left to private enterprise.

The Members.—The members of a cooperative elevator company should be men who raise grain and desire membership in order to provide better grain-marketing facilities. The same general principles apply in the organization of any cooperative enterprise. The members must have a direct financial interest. For example, men interested in making the greatest possible profit from handling grain would not be harmonious stockholders in a cooperative association organized by men who wanted to get the best possible price for the grain they produced. It is better if all members are acquainted, as strangers are apt to have little confidence in one another and cooperation requires the highest confidence. Cooperation is likely to succeed best when all members speak a common language, when their children attend the public school, and where all are interested in the same community enterprises.

Business Done on a Cash Basis.—Local grain dealers have long followed the custom of paying cash for grain upon delivery. The farmer makes his plans accordingly. Ordinarily the cooperative elevator must conform to the established precedent. It should also receive cash for grain, coal, mill feeds, and all other commodities handled. Granting credit to some customers when others pay cash is rank discrimination and cannot be practiced with safety by any co-

operative organization. It will doubtless be recalled that the cash system was one of the guiding principles of the Rochdale Pioneers. Succeeding generations of cooperators have followed the cash rule with success, and others have disregarded it to their sorrow. Some cooperative companies have succeeded in spite of the fact that they extended credit, but it is doubtful if any have succeeded because they extended credit. Extending credit is equivalent to loaning money, and is an accommodation for which banks require pay. The business of an elevator company is to buy and sell grain and other commodities, and not to operate a bank.

Business Records.—A cooperative elevator company must keep accurate records, in order that not only the manager but the board of directors may know the exact condition of the business. A mere record of receipts and payments is not sufficient. There must be a record of grain purchases, a record of grain shipments and sales, a patronage ledger, and a cost analysis. The United States Bureau of Markets has devised a very complete and accurate system of elevator accounts which is now widely used. It is described in Bulletin No. 811 of the United States Department of Agriculture, entitled, "A System of Bookkeeping for Grain Elevators."

Operate at a "Profit."—A cooperative elevator company should be so operated that it will ordinarily show a "profit" (which is really a saving) at the end of the year. The theory, sometimes advocated, that it should just pay out each year does not work well. The grain business is hazardous. No manager and no board of directors can foretell when a sudden drop will find them with a well-filled elevator and no cars. Under such conditions a loss is unavoidable. If the elevator has operated upon a sufficiently wide margin during the preceding months, that is, if it has retained perhaps 2 cents a bushel in addition to the cost of doing business, the loss may be balanced by past so-called "gains." It is always easier to pay a loss from accumulated "profits" than to make it up on future sales.

Profits are easy to divide. No member objects to receiving a proration upon his grain sales. Earnings upon grain purchased of non-members can be returned to them in part, or used to strengthen the reserve. A loss is not easily prorated. No farmer is enthusiastic over a company that fails to pay expenses. He realizes that any loss takes that much value from the stock of the elevator company.

A cooperative elevator company must decide upon the margins necessary to pay expenses and secure a profit, and should fix for

itself the price at which grain will be purchased. The company which lets its competitor fix the price it pays, that is, which always meets the competitor's price, usually finds plenty of trouble.

The members of a cooperative company should know the handling, freight, and selling costs, and the margin necessary to pay expenses. When they know the situation, farmers will usually elect to stand by their own company, even though a slightly higher price is offered by a competitor.

The members always have the alternative of selling where they can secure the highest price, and paying to their own company a portion of the return sufficient to cover operating expenses. No company can continue to handle grain at a loss, and no elevator company puts up the price to a point where a profit is no longer returned unless it expects to recoup present losses from future profits.

Avoid Speculation.—Holding grain is a speculative enterprise. This is true whether the grain is held by a farmer, by an elevator company, or by a buyer at the terminal market. The farmer may be holding the grain because he is not satisfied with the present price, the elevator because of car shortage, and the terminal buyer may have purchased the grain in the hope of a future rise—but all are taking market risks.

A cooperative company should reduce speculation to the minimum. Grain should ordinarily be sold as soon as purchased. In time of car shortage this is sometimes impossible. Some companies lessen their risk by the sale of grain for future delivery, but this affords insufficient protection when the margin between "cash" wheat and "future" wheat is changing. For example, an elevator might buy 10,000 bushels of wheat which it could not ship, and hedge the purchase by selling 10,000 bushels of May wheat, expecting to buy back the "hedge" when the cash wheat could be shipped. If the margin between cash wheat and May wheat should increase 2 cents per bushel, as sometimes happens, the elevator would lose $200 on the "hedge."

A large elevator providing ample storage room often has an advantage over the small elevator as it permits of shipments whenever cars can be secured. On the other hand, the elevator company that purchases and stores a large amount of high-priced grain is engaged not in marketing but in speculation. A year's profit may be wiped out within a few days by market fluctuations. A company owning a large elevator will therefore find it safer to store grain for the growers than to purchase and hold it for themselves. Even the storing of

grain for members cannot be highly recommended. A cooperative company must treat all members alike, and if it stores for one it must store for all. When storage room in the elevator is exhausted, the company must either place the grain in storage in some terminal elevator or else sell it and hedge. The commercial storage is usually at a higher rate than the local company charges, and the company must bear this loss. If the grain is sold, and the margin between the cash market and the future market at which the "hedge" was purchased is narrower when the man who stored the grain is ready to sell than it was when the grain was sold, the elevator will lose the difference. One elevator company which stored grain for members reported that they lost over $3000 in 1923 because of this narrowing of the margin between cash wheat and future wheat. As a result they discontinued the storage of grain.

Equitable Treatment.—All customers should receive the same treatment. Grain must be purchased upon a uniform margin and with a due regard for grade. The producer whose grain is of high grade is entitled to receive a better price than can be paid for inferior grain. The manager not only should be equipped to test grain but should be able and willing to demonstrate to any patron why his grain is of a specified grade. Some men whose grain is damp, dirty, or mixed may at first object to this policy, but it will pay out in the long run. The American farmer believes in fair play. The cooperative manager cannot afford to give special favors or special prices.

The Management and the Manager.—The success of a cooperative company depends very largely upon the efficiency of the manager. The executive powers of a cooperative association are usually vested in a board of directors, elected by the members. The board of directors elects or appoints the manager and his assistants, and directs the general policy of the company. The directors should make a thorough inspection of the business periodically. The manager should make a report to the board at least once each month showing the exact condition of the business. For the protection of the manager, the directors, and the stockholders, an audit of the accounts should be made at least once each year by someone not connected with the business. As the income tax report will ordinarily be made from this audit, it should meet every requirement of the commissioner of internal revenue.

The most important task of the directors is the selection of a manager, for upon him depends, to a large extent, the success of the company. If they elect a competent man the rest of their work is

easy. They simply hold him responsible for the development and execution of their policy.

J. W. Shorthill, Secretary of the Farmers' Elevator Association of Nebraska, who has had an exceptional opportunity to learn the causes of the success and failure of cooperative companies, emphasizes in the following words the importance of securing a competent manager:

"The manager of a cooperative organization is the most important single factor in its success. He is the official whom the patrons meet, and their opinion of the company will be gauged to a considerable extent by their opinion of him. In choosing a manager the first qualification to consider is honesty, the second industry, the third natural business ability, and the fourth business education. All are important, but they are named in the proper order. Experience in the line of business to be handled is a very desirable qualification, but it must come after those named above.

"The man whose sole recommendation is that he will work cheap cannot measure up to these nor to such a position. The competent man seldom works for a low salary; it is not necessary. The man who has failed in his own business is not apt to make a success of a cooperative enterprise. The extra salary demanded by a competent man over the incompetent is small compared with the results which he secures.

"The manager must give a bond in keeping with the financial responsibility he must assume. The average grain company should require a bond of $5000 from its manager, and it is preferable that he give a fidelity bond rather than a personal one.

"The statement is often made that cooperative companies are successful because their stockholders are loyal. This is not true. The reverse is the true statement—the stockholders are loyal because the company is successful. Let the company become involved or fail 'to make good,' and the members will fall away one by one. The success of cooperative companies is not due to sentiment, but to good business methods and to steady hustling. The companies must work continually for both new members and new business."

Cooperatives Must Follow Well-established Principles.—Some cooperative elevator companies have succeeded although they complied with but few of the essentials that have been given. Usually the need was so great that the members hung together in spite of their poor form of organization. With a lessening of the need such companies are likely either to fail or to become ordinary corporations owned by a small number of farmers.

Many successful companies do not comply with all the essentials mentioned, but most of the companies that continue in successful

operation year after year comply with them in spirit if not in actual detail. Enthusiasm or a good manager may carry a very poorly organized company along for several years, but when business depressions come such companies are the first to feel their effects. For example, a long-established company built a new elevator when prices were high. No effort was made to sell stock as it was easy to borrow money. When the depression came in 1920–21, the lenders needed their money. It was practically impossible to sell stock because nearly every farmer was hard pressed to meet current expenses and pay debts contracted during the period of inflation. As a result the elevator passed into private hands. Another company had a manager of good personality who knew little of accounting and practiced less than he knew. So long as the business prospered the members felt satisfied and the board of directors left things to the manager. A year came when the business showed a loss, and the members wanted to know why. The directors could not furnish the information because the records were incomplete. An accountant found evidence that the manager had made slight errors in his own accounts with the company. He at once made good the small shortage and stated his willingness to make good any other which should be found. There was no indication of intentional dishonesty. The damage had been done, even though the amounts involved were paltry. The members were suspicious of the manager and felt that the board of directors had been inexcusably negligent because there was no authentic record of the company's business. As a result of this suspicion the company has not prospered. The loss of confidence was of much greater effect than the loss of money.

Examples could be given almost without limit illustrating that a failure to observe either the essential principles of cooperative organization or the other essentials which have been mentioned is likely to result disastrously. The cooperative road has been traveled often, and its rules are well established. Cooperators who wish to succeed will do well to follow them.

Possible Developments.—As knowledge of cooperation becomes more general and farmers become more accustomed to the handling of business enterprises, they may reach the point where marketing is considered as much a part of the farmer's job as is the production of the crop to be marketed. Few will question the statement that, given efficient business management, the producers can handle all the grain grown in the territory tributary to a single shipping point more economically through a single elevator than it can be handled when

divided among from two to six elevators. If to the operation of country elevators the grain growers add the sale of their product at the terminal market or direct to millers and exporters, there seems to be an even greater opportunity for the economics of direct marketing and large-scale operation.

These changes will not come at once but they are indicated by the present trend of thought and activity among organized farmers. Marketing is a part of production—of getting goods to the ultimate consumer—and should be performed by the most economical method. Farmers are to-day doing for themselves, through their own organizations, many things of which their fathers never dreamed. The cooperative marketing of grain may readily become one of those things which the farmer does as a matter of course because it is the best way in which it can be done.

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CHAPTER VII

LEGAL PHASES OF COOPERATIVE ORGANIZATIONS

Farmers' cooperative organizations may be either incorporated or unincorporated associations. If the business is at all complex or involves the handling of any considerable amount of money or property, the association should be incorporated. If it is relatively simple in form or handles but little property, as in the case of a beef ring, incorporation is not so essential.

Purpose and Importance of Incorporation.—A corporation is "an artificial being, invisible, intangible, and existing only in contemplation of the law." [1] It has many of the legal powers of an individual, such as the power to take, hold, and convey property, make contracts, sue and be sued, and the like. It is a legal entity, distinct from its members, individually or collectively. A corporation is a creature of statute. At one time a separate act was passed by a state legislature every time a corporation was created. Now every state has general statutes which authorize the creation or formation of corporations. A corporation differs from a partnership in three important respects: (1) The death or retirement of a partner dissolves a partnership; the membership of a corporation may change from time to time through the sale of shares of stock or the death of members, but the corporation continues until its charter expires or it is dissolved from other causes. (2) Each partner is an agent for his firm; a stockholder as such is not an agent for a corporation and has no control over its property. The corporation can be bound only by its duly elected officers. (3) Each partner is individually liable for the debts of the firm. In the ordinary corporation the stockholders are not liable for its debts beyond the par value of their capital stock. If a member's stock has been only partially paid for, the balance may be collected, but he is under no further obligation. A man can invest a certain sum of money in a corporation without in any way endangering any of his other holdings. An exception to this principle is

[1] Marshall, Chief Justice, in Dartmouth College vs. Woodward.

sometimes made by statute; for example, statutes providing for the incorporation of banks usually provide for double liability.

The unincorporated association is like the corporation in that it is not dissolved by the death of a member, but is like the partnership in that members are held individually responsible for company debts. Such associations are ordinarily formed independent of statute under the common-law right of contract. They are not adapted to the handling of any business except that of the very simplest type where little money is involved.

Many persons are somewhat prejudiced against corporations because some corporations have used their powers unscrupulously. Such expressions as "heartless, soulless corporations" are common. Cooperators should remember that corporations are not necessarily bad and that the corporate form of organization has very obvious advantages. A cooperative association which incorporates becomes by that act a corporation. It has the advantages possessed by the ordinary corporation, and in addition the advantage of being cooperative.

Corporation Law.—The rapid growth in the number of corporations in the various states made the granting of charters by special legislative act inadvisable and in fact almost impossible. As a result, corporation statutes were enacted to fit needs as they arose. We have, therefore, in many states one set of statutes providing for the organization and incorporation of banks, other statutes providing for the incorporation of religious or charitable associations, and still others providing for the incorporation of manufacturing or trading companies. The statutes were in each case drawn to fit the needs of the type of organization for which they provided. It naturally followed that when men began to form cooperative companies they found no laws framed to fit their needs and were of necessity compelled to incorporate under statutes which had been framed to meet the needs of associations organized for profit. This often caused the cooperative company considerable difficulty, as has already been shown in the case of the farmers' cooperative elevator associations. In some states it was impossible for a cooperative company to declare a patronage dividend because the statutes made no such provision, and in many states constitutional as well as statute provisions required voting to be based upon the ownership of stock. For many years the cooperative movement was not strong enough to demand legislation, even if the leaders had known exactly what was needed; cooperative companies were therefore forced to make their practice conform to existing laws. This is the reason why so many of the older farmer-

owned elevator companies pay their savings to their members in proportion to capital contributed instead of in proportion to volume of grain sold to or through the organization.

Cooperative Corporations.—The first cooperative law in the United States was enacted in Michigan in 1865. The object of the law was to facilitate the organization and operation of cooperative stores, but in 1875 it was amended to include agricultural and horticultural associations. One of its provisions read as follows: "Said associations may, either in their articles of association or by-laws for that purpose to be adopted, regulate the number of shares which any one subscriber may take and hold . . . the mode of voting thereon . . . the mode of awarding, declaring, and paying dividends." [2]

Other states which followed Michigan in the enactment of laws authorizing the formation of cooperative associations include Massachusetts (1866), Pennsylvania (1868), Minnesota (1870), Connecticut (1878), California (1878), and Ohio (1884). Some of these new laws made but slight modifications in existing statutes. Each one, however, was of value because each gave recognition to cooperation and facilitated the organization of cooperative associations. Several other states enacted cooperative statutes within the next twenty-five years and some of these earlier statutes were also amended. In 1895 California enacted the first non-stock cooperative law. It was rewritten in 1909 and amended in 1913.

Nebraska and Wisconsin each enacted a cooperative law in 1911 providing, among other things, for the payment of patronage dividends. The Wisconsin law limited the amount of stock which one man could own to $1000, and the Nebraska law provided that a cooperative company itself could limit ownership of stock. The Wisconsin law also provided that "no stockholder should be entitled to more than one vote": in Nebraska a constitutional provision (since amended) prevented such a rule. The Wisconsin and Nebraska statutes have been used as a model by legislatures of many other states.

The non-stock idea contained in the California law of 1895 developed slowly until after the passage of the Clayton Act in 1914. Nearly all the states now provide by statute for non-stock companies. Many of these statutes follow the same general plan and are very detailed, providing exactly what may be done and how it may be done.

In some states provision is made by the same statute for both stock and non-stock companies. Other states have two distinct statutes. The laws which provide for cooperative capital stock companies

[2] Laws of Michigan, 1865. Act No. 288.

are usually brief. Opportunity is given for each company to work out in its articles of incorporation and by-laws the detailed rules under which it wishes to operate. A brief law—whether providing for stock or non-stock companies—is doubtless best for those communities that have a good knowledge of cooperation and cooperative principles and ready access to typical articles of incorporation and by-laws which are fitted to their needs and which they may use as a guide.

Articles of Incorporation.—In order that an association may become a body corporate it is necessary that articles of incorporation be filed with the proper officials of the state. The laws of the various states make specific mention of certain things which the articles must contain. These specifications ordinarily include the name of the corporation, the principal place of transacting business, the general nature of the business to be transacted, the amount of capital stock authorized and the time and conditions on which it is to be paid, the officers who are to conduct the affairs of the corporation, and other points of less importance. As has already been mentioned, the cooperative law in some of the states enters into rather minute details.

The articles of incorporation may be considered as a constitution —as the fundamental law of an association and as a guarantee of the rights and privileges of the members. It is therefore best to place in the articles of incorporation, in addition to the absolute legal requirements, only those things upon which all are agreed and upon which there is not likely to be a need for change. Whenever a change is made the amendment must be filed with the proper official, a procedure which necessitates some trouble and expense.

The By-laws.—The by-laws contain the detailed working rules that govern the association. They may be likened to statute laws and should ordinarily be made easy of amendment. Ordinarily the by-laws should enter into considerable detail regarding the duties of officers, transfer of stock, privileges and duties of members, division of savings, and other important matters. A definite statement of plans leaves less opportunity for misunderstandings.

Help in Organization.—Unfortunately, many otherwise well-informed lawyers know little of cooperation and cooperative law. They have become so accustomed to the general corporation laws under which associations operated for profit are organized that they often arrange for the incorporation of farmers' companies under this law instead of under the cooperative law. Farmers should become familiar with their cooperative law. Assistance in organization can usually

be obtained from state-wide farmers' organizations. The secretary of each state association of cooperative grain dealers has articles of incorporation and by-laws prepared which comply with the law and which with but slight changes will fit the needs of any community in his state. The State Grange, The Farmers' Union, The Equity Union, and the Farm Bureau are also usually able and willing to give help in the organizing of local cooperative associations. In many of the states the agricultural college has studied cooperative marketing and is in a position to be of very great assistance to new organizations.

The Federal Anti-Trust Law.—The rapid trend toward monopoly in many industries resulted in the enactment by Congress in 1890 of an anti-trust law commonly called "The Sherman Anti-Trust Law." The first three sections of this law read as follows:

"(1) Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign states, is hereby declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5000 or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

"(2) Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5000, or by imprisonment not exceeding one year or by both said punishments, in the discretion of the court.

"(3) Every contract, combination in form of trust or otherwise, or conspiracy in restraint of trade or commerce in any territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such territory and another, or between any such territory or territories and any state or states or the District of Columbia, or with foreign nations, is hereby declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5000, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."

Various states passed laws similar in tenor to the Sherman Act, in an endeavor to restrain monopoly. These laws not only restrained big business enterprises but proved even more efficient in restraining certain types of farmers' organizations. For example, the by-laws of many of the early cooperative elevator companies contained a clause,

commonly called a penalty clause, which provided that any member who sold grain to a competing firm should pay to his own elevator a sum amounting to one cent or one-half cent per bushel for each bushel so marketed. This clause was effective in helping wavering members remain loyal until it was attacked in the courts. In two cases the Iowa Supreme Court held such by-laws invalid on the ground that they "tended to restrain trade or competition." The Colorado courts held that a by-law which provided that a member might sell grain to a competitor by paying one cent per bushel to his own company was in restraint of competition.

Organized labor was also dissatisfied with the working of the Sherman Act, and as a result it was amended in 1914 by the passage of the Clayton Act.

The Clayton Act.—The Clayton Amendment to the Sherman Law provides in Section 6 as follows:

> "That the labor of a human being is not a commodity or article of commerce. Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor, agricultural, or horticultural organizations, instituted for the purposes of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the anti-trust laws."

At the time of the passage of this act it was generally believed that any "labor, agricultural, or horticultural organization" that was "instituted for the purposes of mutual help," did not have "capital stock," and was not "conducted for profit" was exempted from prosecution as a trust or monopoly.

The farmers of the Middle West made few attempts to utilize the exemptions provided in the law. Their elevators and creameries were organized with capital stock and considerable capital was needed for their operation. They did not care to resort to the device of organizing a capital stock company which should own an elevator, which elevator should be leased to a non-stock company organized to buy and sell grain. The capital used in the grain business under such conditions would either have to be contributed by the members or be borrowed upon their personal security. In several states such a company could not legally borrow money on its own security, even if men could be found who were willing to lend to it, because statutes

limited the indebtedness of a corporation to two-thirds of the paid-up capital stock. The board of directors who borrowed the money would under such conditions automatically render themselves personally liable for its payment.

California and some other states, as has already been stated, had non-stock laws previous to the passage of the Clayton Act. It was therefore a logical sequence that non-stock, non-profit organizations should be formed within these states. Many of these companies have been forced to organize other companies to own warehouses and furnish capital. In some of the later chapters a more complete discussion will be given of the type of organization developed under this law.

The few court decisions that touch the Clayton Act do not indicate that the organizations complying with its provisions may adopt methods of conducting their business which are denied to other lawful business organizations.

In a case involving a labor organization the opinion of the Supreme Court reads in part as follows:

> "The section (6) assumes the normal objects of a labor organization to be legitimate, and declares that nothing in the anti-trust laws shall be construed to forbid the existence and operation of such organizations or to forbid their members from lawfully carrying out their legitimate objects; and that such an organization shall not be held in itself—merely because of its existence and operation—to be an illegal combination or conspiracy in restraint of trade. But there is nothing in the section to exempt such an organization or its members from accountability where it or they depart from its normal and legitimate objects and engage in an actual combination or conspiracy in restraint of trade. And by no fair or permissible construction can it be taken as authorizing any activity otherwise unlawful, or enabling a normally lawful organization to become a cloak for an illegal combination or conspiracy in restraint of trade as defined by the anti-trust laws."

In another case the court said:

> "That act means, as I understand it, that organizations such as it describes are not to be dissolved and broken up as illegal, nor held to be combinations or conspiracies in restraint of trade; but they are not privileged to adopt methods of carrying on their business which are not permitted to other lawful associations."

The California Associated Raisin Company Case.—The Federal Government brought suit against the California Associated Raisin Company (afterward reorganized as the Sun Maid Raisin Growers) in September, 1920, charging it with monopolizing and restraining

trade in violation of the anti-trust laws. In the final settlement of the case, which was by a consent decree, the Raisin Company was enjoined and restrained from eliminating or decreasing competition in interstate or foreign commerce. It was forbidden to use coercion or duress in securing contracts with growers, and compelled to abandon the sale of raisins at what was known as the "firm at opening price," and was also forbidden to fix or attempt to fix the resale price of raisin grapes or raisins.

This decision will be discussed more completely in Chapter XIV which gives the history of the Raisin Company and its plan of organization. The one point to be noted here is that this company, which was essentially a company of agricultural producers, was forbidden to utilize practices which were monopolistic or might tend to become monopolistic.

The Capper-Volstead Act.—As the number of farmers' cooperative organizations increased and as the scope of their business operations grew larger, it became more and more evident that the Clayton Act did not secure for them the privileges necessary to their development. Capital stock organizations had no protection whatever, and organizations without capital stock were often hampered because of being compelled to organize subsidiary or closely allied companies to furnish necessary capital. Various bills were introduced into Congress to remedy the situation, but Congress was slow to act. Many members seemed to fear that the farmers might secure a monopoly if they were freed from any of the provisions of the anti-trust laws. It was not until February 18, 1922, that the best known of these bills, the Capper-Volstead Act, became a law. The law is entitled, "An Act to Authorize Associations of Producers of Agricultural Products," and reads as follows:

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of persons so engaged. Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes: Provided, however, That such associations are operated for the mutual benefit of the members thereof, as such producers, and conform to one or both of the following requirements:

"*First.* That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein, or,

"*Second.* That the association does not pay dividends on stock or membership capital in excess of 8 per cent per annum.

"And in any case to the following:

"*Third.* That the association shall not deal in the products of non-members to an amount greater in value than such as are handled by it for members.

"*Sec. 2.* That if the Secretary of Agriculture shall have reason to believe that any such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced by reason thereof, he shall serve upon such association a complaint stating his charge in that respect, to which complaint shall be attached or contained therein a notice of hearing, specifying a day and place not less than 30 days after the service thereof, requiring the association to show cause why an order should not be made directing it to cease and desist from monopolization or restraint of trade. An association so complained of may at the time and place so fixed show cause why such order should not be entered. The evidence given on such a hearing shall be taken under such rules and regulations as the Secretary of Agriculture may prescribe, reduced to writing, and made a part of the record therein. If upon such hearing the Secretary of Agriculture shall be of the opinion that such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced thereby, he shall issue and cause to be served upon the association an order reciting the facts found by him, directing such association to cease and desist from monopolization or restraint of trade. On the request of such association, or if such association fails or neglects for 30 days to obey such order, the Secretary of Agriculture shall file in the district court in the judicial district in which such association has its principal place of business a certified copy of the order and of all the records in the proceeding, together with a petition asking that the order be enforced, and shall give notice to the Attorney General and to said association of such filing. Such district court shall thereupon have jurisdiction to enter a decree affirming, modifying, or setting aside said order, or enter such other decree as the court may deem equitable, and may make rules as to pleadings and proceedings to be had in considering such order. The place of trial may, for cause or by consent of parties, be changed as in other causes. The facts found by the Secretary of Agriculture and recited or set forth in said order shall be *prima facie* evidence of such facts, but either party may adduce additional evidence. The Department of Justice shall have charge of the enforcement of such order. After the order is so filed in such district court and while pending for review therein the courts may issue a temporary writ of injunction forbidding such association from violating such order or any part thereof. The court

may, upon conclusion of its hearing, enforce its decree by a permanent injunction or other appropriate remedy. Service of such complaint and of all notices may be made upon such association by service upon any officer or agent thereof engaged in carrying on its business, or on any attorney authorized to appear in such proceeding for such association, and such service shall be binding upon such association, the officers, and members thereof."

This act is specific in its declaration that so far as interstate or foreign commerce is concerned "persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in associations, corporate or otherwise," in processing, preparing for market, handling and marketing the products of the persons so engaged. Such associations may be organized either with or without capital stock, and may make all necessary contracts and agreements. Such associations must, however, be operated for the mutual benefit of the members, must not deal in products of non-members to an amount greater in value than the value of the products of the members which are handled, and must either limit the members to one vote without regard to the amount of stock held or else not pay dividends on stock in excess of 8 per cent per annum.

The law very evidently attempts to limit its scope to cooperative associations of producers and, in order that other associations may not take advantage of its provisions, applies some of the well-known tests of true cooperation. It does not affect consumers' cooperative organizations in any way.

The second section of the law is designed to prevent cooperative organizations from monopolizing or restraining trade. Doubtless the raisin case to which reference has already been made was one of the influences which caused Congress to add this second section. In the enforcement of the act, the Secretary of Agriculture is charged with the duty of holding a hearing if he has reason to believe that any association is attempting to monopolize or to restrain trade. The Secretary of Agriculture should naturally be a man friendly to agriculture, so that cooperative organizations of agricultural producers need not fear petty persecution. The organizations of producers which might secure a monopoly if they so desired are so few in number that this second section of the act can hardly be considered of primary importance.

Keeping Members Loyal by Law.—Mention has already been made of the difficulties experienced by the cooperative elevators in

maintaining the loyalty of their members. Unfortunately, human nature is such that many men who doubtless really believe in cooperation and its benefits are so ruinously short-sighted that their sense of loyalty is dulled by an opportunity for present gain. They will patronize their own organization so long as it sells goods cheaper than do other firms or pays a higher price for farm products than its competitors, but they are lured away if an opportunity is presented to buy goods cheaper or to obtain more for their products. Present gain to them is of more importance than remaining loyal. They expect that someone else will carry the load and keep the cooperative company in operation, so that effective competition may be maintained.

As has already been related, the so-called "penalty clause" was effective for a time in helping members to remain loyal, and it is very certain that the cooperative elevators of the grain belt would not have developed as rapidly without it. The elevators and shipping associations had grown so strong before it was attacked in the courts that they have prospered in spite of opposition and in spite of the fact that some of their members lacked vision and loyalty.

In western states, when cooperative organizations began to develop, another and more effective device was adopted—the membership contract.

Membership Contracts.—"A contract is an agreement between two or more persons for the breach of which a court of law will give damages."[3] There may be agreements that are not contracts because no court would award damages even if they were broken. "In order that a contract shall be enforceable the following elements must be present: (1) an agreement; (2) by competent parties; (3) upon sufficient consideration; (4) in some cases, evidenced in a particular form; (5) for a legal object; and (6) made without mistake, fraud, undue influence or duress."[4]

In the typical membership contract with a cooperative association the member agrees to market through the association all his crop that is offered for sale, or that portion of it grown on certain specified land, and agrees to pay damages in case he markets his crop or any part of it in any other way. These membership contracts have been the outstanding feature of many of the more recent California cooperative associations which have been successful and have been adopted by the Burley Tobacco Growers' Association, by the Okla-

[3] Huffcut. Elements of Business Law, p. 13. Ginn & Co.
[4] Huffcut. Elements of Business Law, p. 14. Ginn & Co.

homa Cotton Growers' Association and other state cooperative cotton marketing associations, by many associations of milk producers, by associations of wheat growers, and in fact by a very large majority of the large marketing associations formed in recent years. The membership contract may be said to be the only really important addition made to the principles of the original Rochdale Pioneers in the many years that their plan of cooperation has been in operation.

Purpose of Contracts.—There are two primary purposes of the membership contract: (1) The company is assured of a fairly definite volume of business; and (2) competitors find it less advantageous to resort to unfair practices in order to get the business away from the cooperative company.

Minor purposes sometimes mentioned are as follows: to aid the association in controlling quality; to give the association control of *time of movement to market; to furnish a basis for control over* product; to furnish a basis for credit to the association and indirectly to the growers.

If a cooperative company knows the probable volume of business, preparations can be made to handle it efficiently. No company can afford to erect packing sheds unless it knows that fruit will be delivered to it to be packed; neither can a grain-marketing association risk the building of an elevator of sufficient size to handle all of the crop of the members if there is a probability that half of them will sell to some competitor. The management dare not borrow money nor hire help without having a fairly definite idea of the amount that will be needed. As many cooperative elevator managers know to their sorrow, it is somewhat risky to sell grain before it is actually delivered to the elevator, because if the market rises the producer may not deliver the full amount that he has agreed to deliver. On the other hand, if the market falls the amount delivered is not likely to be less than the amount that the elevator company purchased. The elevator company must, of course, ship out the amount of grain that it sells, irrespective of the price which it pays for the grain. The contract places the same obligation upon the producer that other business firms place upon the cooperative association.

One of the chief troubles of the early cooperative companies was the difficulty of holding the business of their members if a competitor offered them a higher price, the privilege of free storage, easy credit terms, or some other good-fellowship concession. Many men are short-

sighted and unable to see that the high price or special inducement of the competitor may be only a temporary expedient put in effect for the purpose of driving the cooperative company out of business. The story of how the elevator company at Rockwell, Iowa, met unfair price competition by charging each member a definite price per bushel for marketing his grain, without regard to whom it was sold, has already been related. The contract is a present-day improvement upon the "penalty clause" of the early cooperative companies.

Term of Contract.—The term of a contract between a cooperative association and its members is of varying length. Some membership contracts run for only a single year, and others run for five, seven, or even as long as twenty years. The average length of time is about five years. The chief objection to a one-year contract is that it does not put the business on as permanent a basis as does a long-time contract. Another disadvantage of the one-year contract is the trouble and expense of securing renewals. The members may be well satisfied and wish to continue their membership but nevertheless many of them will not sign up until someone has solicited them personally. A third reason which affects some companies is that a long-time contract enables a company to issue stock or float loans and make payment by collecting a fixed charge upon the products delivered during the life of the contract. One year is not a long enough time to take care of such payments.

The chief disadvantage of the long-time contract is that men dislike to tie up their crops for a long term of years. There is always the possibility that the management may prove inefficient, or operate the company in their own interest. One group of milk producers, for example, was a full year in getting rid of a manager after many of the group had decided that he knew nothing about marketing milk. They had to keep on delivering their product during this entire period because they were tied up with an enforceable contract. Their loss for the year has been more than equalled by later gains.

Probably the best form of contract is one that extends over several years but permits a member to withdraw by giving notice during some specified period of each year. Ordinarily a time is selected when the crop of one year is largely marketed, and the marketing of next year's crop not yet under way. Such a contract is known as a continuing contract.

A comparison of different types of contracts, in so far as they affect the relationship of the members to the company, is given in Chapter XXV.

Form of Contract.—Contracts between producers and their cooperative marketing association are variable in length and form. Many of the older contracts are of a very general nature, while the tendency in many of the newer contracts is to go into minute detail. When the contract states exactly what the association will do and what the member must do, the opportunity for a misunderstanding is decreased. The following provisions are among those more commonly included:

1. The term of the contract.
2. Plan of selling; method of pooling if the product is pooled, etc.
3. Method of payment; sometimes the charge is definitely stated.
4. The member's obligation to deliver his product to the association or at its direction.
5. Penalty for breaking contract.

Legality of Cooperative Contracts.—The legality of contracts between a cooperative association and the members of the association has been tested out in the courts of various states and in the United States Supreme Court, and the decisions clearly establish the legality of such contracts. The Capper-Volstead Act, as has already been stated, guarantees to cooperative companies that they "may make all necessary contracts and agreements." The cooperative statutes of many states also specify that contracts may be made between a cooperative association and its members and damages collected for the violation of such contracts.

Among cooperative contracts held valid may be mentioned those of the Tobacco Growers' Cooperative Association of North Carolina, the Washington Cranberry Growers' Association, Bullville (New York) Milk Producers' Association, Milk Producers' Marketing Company of Chicago, Texas Farm Bureau Cotton Association, Washington Wheat Growers' Association of Walla Walla county, Kansas Wheat Growers' Association, and Oklahoma Cotton Growers' Association.

Producers who are interested in cooperation should understand that the cooperative contract is here to stay and that ordinarily it is enforceable.

Liquidated Damages.—A cooperative selling association must plan to take care of the products for which it has contracted. If the officers do not provide ample facilities the members are likely to suffer loss. If, on the other hand, the members fail to deliver their products as agreed upon, the cooperative company suffers a loss because its facilities are not fully utilized. The exact loss due to the failure of

either party to keep its contract is not only variable, since it depends upon several factors, but it is also usually difficult to determine. In order that there may be no dispute as to the amount of damages, growers' contracts customarily stipulate some definite amount to be paid if the grower fails to live up to his agreement. Damages that are determined in advance by agreement between the contracting parties are called liquidated damages.

The "penalty clause" of the early elevators had the same object as the provisions for liquidated damages have to-day. The producer had to pay his elevator a stipulated price per bushel if he sold his grain to some competing firm. Specifying the amount of damages makes the penalty for breaking a contract definite and simplifies the work of the court in case legal procedure is necessary.

The marketing contract recommended by the California Fruit Growers' Exchange for use by all its affiliated associations contains the following section which may be considered fairly representative:

"10. The actual damages which will be sustained by the first party because of the failure or refusal of any of the second parties to pick and deliver his said fruit as herein provided, and the further detriment and injury to the first party because of the effect of said breach upon the California Fruit Growers' Exchange and its efficiency, and the expenses to which the first party will be put, and the damage caused by outlays incurred and to be incurred by it in providing means for selling and marketing the said fruit, are impossible now to estimate or fix, and, therefore, the same are estimated and agreed upon as twenty-five cents (25¢) for each box of fruit grown or sold, which sum shall be allowed in any action brought by the first party to recover damages for the breach of this agreement by any of the second parties, should the first party elect, as it may elect, to bring such action."

Not only have courts granted liquidated damages for the breaking of a grower's contract, but they have also granted injunctions to prevent delivery to any other person, company, or corporation. When a man signs a contract containing such provisions as those quoted in the preceding paragraphs he may feel assured that the cooperative company can compel delivery of the product and that it will in all probability use that power unless a very large percentage of the members are in fairly open rebellion. The cooperative association may not be particularly successful, for any one of a variety of reasons, but it will not fail because the contracts are illegal. The difficulties which a few companies have had in enforcing contracts will be described in later chapters.

The Need of Knowing Laws Affecting Cooperative Associations.—Cooperation is increasing. The rate of increase will be retarded or accelerated somewhat in accordance with the development of laws affecting cooperation. The difficulties that the cooperatives met in conducting business under laws intended for corporations organized for profit have already been discussed. The Sherman Anti-Trust Law worked a hardship upon cooperative companies that was not removed by the Clayton Act. The Capper-Volstead Act has apparently given us a workable national law. In some states no provision is made for non-stock cooperative companies, and in others the stock companies are bound down by irksome restrictions. Probably the model cooperative law has not yet been written. Some producers have signed contracts because they believe in making all members contribute to the company, without realizing how small a part the members of the company would have in deciding its policies or the number and salaries of its employees. They have found themselves burdened with an incompetent administration and high overhead which it took time to remove, and the savings of cooperation were consumed in paying the professional organizers who started the association and the high salaries of many friends who were left in control. The members must study the law, must know that producers' contracts are enforceable, and must know something of the plans of operation and success of other cooperative associations.

Representative cooperative laws, articles of incorporation, and by-laws will be found in the Appendix.

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CHAPTER VIII

METHODS OF FINANCING A COOPERATIVE ASSOCIATION

The need for ample capital has already been discussed. The best method of raising this capital depends somewhat upon the nature of the business, the financial condition of the members, and the laws of the state in which the company is organized. Sometimes an association is financed by a single method, but usually a combination of two or three methods is found desirable. This is due in part to the very different purposes for which a company may use capital. For example, capital invested in an elevator or warehouse or in other fixed assets serves an entirely different use than does capital which is needed to pay increased operating expenses for a few weeks during the busy season. The following methods of raising capital have been used successfully:

1. Sale of stock.
2. Bank loans.
    A. Secured by company assets
    B. Secured by directors or other officers of the company
    C. Secured by notes of members used as collateral
    D. Secured by warehouse receipts
    E. Loans made by Intermediate Credit Banks.
3. Members' loans to association.
4. Withholding payments to members.
5. Commission house loans.
6. Accumulating a surplus fund.
7. Sale of memberships.
8. Assessment of members in proportion to use each will probably make of the association.
9. Commission on business handled.
10. "Profits" earned on business handled.

Sale of Stock.—Where the initial investment is fairly large, as in the operation of a grain elevator, lumber yard, or general merchandise business, sufficient stock should be sold not only to pay for

fixed assets but to provide at least a part of the working capital. An elevator company must usually buy or build an elevator and coal sheds. It will always have some grain on hand since shipments are ordinarily made only when a carload of a given kind and grade of grain has accumulated. When grain is coming to market rapidly or in time of a car shortage, an elevator will often have on hand many thousand bushels which it is unable to load out. Even when grain is shipped out, payment in full is not made until the grain has reached its destination—usually the terminal market—and has been inspected and weighed. Coal, mill feeds, and other staple commodities are often carried as side lines, thus increasing the capital investment. There should be sufficient paid-up capital, including the surplus, to provide for the ordinary business of the company.

A lumber yard or general merchandise store must necessarily have a considerable amount invested in stock on hand. It is admitted that mercantile institutions have a tendency to carry too heavy a stock and that cooperative associations are by no means exempt from this weakness, but whatever stock is carried, whether large or small, should be paid for. The discounting of bills alone, where the turnover is fairly rapid, will make a difference during the year equivalent to from 5 to 10 per cent interest on the invested capital.

Size of Shares.—The size of the shares of stock depends upon the nature of the business, the amount of capital which must be raised, and the probable number of members. While it is not supposed that all members will make the same use of the association and therefore they should not be expected to contribute equally to the capital, it is essential that each invest sufficient money to make him feel a personal interest in the success of the enterprise.

Mankind is inclined to value things somewhat in proportion to what they cost. The man who makes a very small investment in a cooperative association while his neighbors carry the burden does not usually place a very high value upon the benefits secured and seldom develops a high sense of loyalty. The value of the shares of stock in a grain elevator should ordinarily be $100. This seems a small amount for any grain producer to invest in a marketing organization, compared with what he has invested in the production side of his business. It is easier to raise sufficient capital with shares at $100 than if a lower value is set, because there are always some men who will keep their investment at the minimum. It will ordinarily be necessary for some of the members to buy several shares of stock even when they are valued at $100 in order to provide sufficient capital.

In order to encourage liberal stock subscriptions it is usually wise to place the rate of interest fully as high as current interest rates, and to make the dividends cumulative. The members are thus assured that if profits are made they will ultimately receive interest on their investment, despite one or two unfavorable years.

An investment of $50 per member will usually provide sufficient capital for a cooperative store. The store that starts out with $5 or $10 shares is usually foredoomed to failure, because the business is always short of working capital and the members feel little interest in their company.

Selling the Stock.—The stock should ordinarily be offered for sale by home people. If men really feel the need of cooperation they will subscribe without being talked into it by a "high-pressure" salesman. The salesman who is brought in from the outside to sell stock almost invariably works on a commission. He is usually willing to make any promise that will help make the sale, and if the promise is not fulfilled by the company the member becomes dissatisfied and proceeds to "knock." The commission charged by such salesman also makes a sufficient inroad upon the company capital as ordinarily to render impossible the payment of dividends the first year.

When a local cooperative company is fostered by some state or national organization, such as the Farm Bureau, Grange, Farmers' Educational and Cooperative Union, or a State Cooperative Elevator Association, the regular employees of such organizations would not be considered as "outside" men. They are interested in the success of all companies subsidiary to the parent organization and are apt to be conservative in making promises.

How Much Stock Should One Member Buy.—In the typical cooperative company which follows the "one man, one vote" rule and limits the dividends on stock to current interest rates, there is little advantage in the ownership of more than a single share of stock. It is rather essential that at the time of organization the members be impressed with the fact that they should subscribe for stock somewhat in proportion to the use that they will make of the company and their ability to pay. The really prosperous, progressive farmer hates to have his neighbors feel that he is shirking his share of the burden, and so will usually subscribe for his proportionate share because of the force of public sentiment. It is impossible to fix arbitrarily any definite amount of elevator stock which individual members should buy. The acreage in grain on almost any farm varies somewhat from year to year, and in the Corn Belt the disposition of the grain varies

even more widely. Some years all the grain produced on a farm except wheat will be fed; other years it will nearly all be marketed.

Some of the citrus growers' associations of California require their members to buy stock in proportion to their acreage. Their method is relatively fair because the acreage in a citrus orchard is more stable than the acreage in grain, and all fruit is raised for market. Under such conditions the capital requirement is so equably apportioned that usually no dividends are paid on stock.

Borrowing Money on Company Note.—Nearly all cooperative organizations sometimes borrow money on a note signed by the corporation. As has already been discussed, this method of financing is valuable for furnishing additional working capital in times of unusual expenditure, but it cannot be recommended as a means of providing either capital for fixed assets or ordinary working capital. Demand for credit sometimes exceeds available funds. The financial stringency of 1920–21 is fresh enough in the minds of most men to serve as a warning against placing too great reliance upon the conducting of a business very largely on credit. In the autumn of 1920 many cooperative elevators had to limit their grain purchases because of the money shortage. They had too little ready capital. Under such conditions the firm that has been borrowing to the limit is in a much more serious situation than the one that has sufficient capital for normal business use.

When it is desirable to borrow money for holding some particular agricultural commodity over a considerable period, the association that pools that product has a very material advantage over the individual borrower. This is true even though ownership of the product is vested in the individual producers until the crop is sold. A large loan attracts the metropolitan banks and is more economical than the making of a large number of small loans. Claims have been made that in some communities the pooling of loans and securities has permitted financing the holding of a crop for 4½ or 5 per cent where individual producers had been compelled previously to pay 10 or 12 per cent.

Legal Limits to Borrowing.—Many states have laws which limit the amount of capital which a corporation may borrow. The following statute is fairly representative:

"*Indebtedness Limited.*—The articles of incorporation must fix the highest amount of indebtedness or liability to which the corporation shall at any time be subject, which must in no case exceed two-thirds of the paid-up capital stock. . . ."[1]

[1] Revised Statutes of Nebraska, Section 569.

If the management allows a current liability to be created in excess of two-thirds of the paid-up capital stock, a personal liability is created. In other words, the directors become personally responsible for the debts of the company. No board of directors should be compelled to borrow money upon their own security to finance the business of a cooperative company. Such action shows loyalty but it cannot be considered either a good business practice for them or a good recommendation for their company.

Banks are also safeguarded in the making of loans. The following statute, with slight variation in the percentage that may be borrowed, is found in many states:

> "No corporation transacting a banking business in this state shall directly or indirectly loan to any corporation, firm, or individual, including in such loan all loans made to the several members or share holders of such firm or corporation, for the use and benefit of such firm, corporation or individual, more than 20 per cent of the paid-up capital and surplus of such bank, but bills of exchange drawn in good faith against actually existing value and the discount of commercial paper actually owned by the persons negotiating the same shall not be considered as money borrowed."

In many of the smaller towns of the Grain Belt the capital and surplus of the bank or banks does not exceed $25,000. One-fifth of this amount would pay for only 5000 bushels of wheat at $1 per bushel. The local bank may, of course, dispose of the notes to other banks, but this practice can hardly be recommended as a permanent policy.

Borrowing Money on Notes of Members.—The dangers incident to the complete substitution of credit for paid-up capital have already been discussed. Any cooperative company that attempts it is taking unnecessary risks. Where money must be borrowed in large amounts, the notes of the members are often used as collateral. This is far better than permitting the board of directors to borrow additional capital upon their own personal security. For operating a grain elevator, lumber yard, store, creamery, or other type of business where considerable capital is used throughout the year, it will ordinarily be found more satisfactory for the members to supply the major portion of the capital by the purchase of stock. If a member does not have money available for investment he can utilize his individual credit to borrow the money and pay his cooperative company cash for his stock. He knows then exactly the amount for which he is obligated and the date upon which it must be paid. When all members pay

cash for stock, each one is assured that the contribution of every other member is worth 100 cents on the dollar, which is not always true when the members merely provide collateral.

Use of Warehouse Receipts.—The Federal Government and many of the states have enacted warehouse laws. Any product that can be warehoused, such as grain, cotton, canned goods, dried fruit, butter, or nuts, may be placed in warehouses and held either for future sale or for future delivery. Warehouse receipts are issued upon which loans can usually be secured up to about three-fourths of the value of the goods. The bank is safe in making the loan unless there should be a very rapid and unexpected drop in the market price, since the warehouseman is bonded and the goods are insured. It is usually advisable for the association to let the producer retain ownership of the goods, since a cooperative company is formed for the purpose of marketing and not for speculation. An elevator company, for example, should not buy grain except for immediate sale or shipment. It may, however, store grain for members who wish to hold it in the hope of obtaining higher prices, and may help these members obtain loans on their grain. Good business demands that other types of organizations follow similar rules whenever possible.

The individual small producer is at a disadvantage in securing loans, even upon warehoused commodities, compared with the larger organization. The cooperative company may handle the warehousing of the products, secure loans, make advances, and afterward sell the goods, the member retaining ownership until the goods are actually sold. He merely turns over to the association the transaction of business which can be handled more economically for the group than each man could handle it for himself.

Warehouses that are licensed under the Federal law are carefully inspected and are held to very rigid rules. They must give ample evidence of financial responsibility before they are licensed. No warehouse receipt is issued until the commodity is actually in storage, and no commodity is delivered from the warehouse until the receipt representing it is actually back in the hands of the warehouseman and actually canceled. The banker who loans money upon receipts issued by warehouses licensed under the United States Warehouse Act is protected and this protection influences the interest rate. State laws are somewhat variable in the degree of protection afforded.

Loans Made by Intermediate Credit Banks.—The ordinary deposit bank must keep its assets liquid so as to meet the demands of depositors. Because of this no loans are made for a longer period

than six months, and the bank prefers to make a considerable part of its loans for thirty, sixty, or ninety days. Such loans are satisfactory for an industry that has a rapid turnover, but not for agriculture where the turnover is slow. It is more than six months from planting to harvest, and livestock production is a question of years. The Federal Government has, therefore, provided a banking system to supplement local banks and to assist in meeting the peculiar needs of agriculture.

"By the Agricultural Credits Act of 1923 an Intermediate Credit Bank, with $5,000,000 capital, was established in connection with each of the twelve Federal Land Banks. These banks were given authority to issue and sell properly secured debentures amounting to not more than ten times their paid-in capital and surplus, making their present maximum loaning power approximately $660,000,000. In addition to rediscounting farmers' notes for banks and other eligible financing institutions, these Intermediate Credit Banks make loans direct to cooperative associations of agricultural producers on the security of warehouse receipts covering staple agricultural commodities. Advances are made in amounts not exceeding 75 per cent of the value of the commodity offered as security. The interest rate to cooperative associations is now 4½ per cent. Loans may run from six months to three years. Renewals may be granted where the need exists and the security and business methods of the association warrant.

"The Federal Farm Loan Board has ruled that approved warehouse receipts or shipping documents covering the following agricultural products may be accepted as a basis for loans to cooperative marketing associations: wheat, cotton, wool, tobacco, raisins, peanuts, broom-corn, beans, rice, alfalfa, and red-top seeds, hay, nuts, canned fruits and vegetables, maple syrup, and dried fruits.

"There is nothing mysterious or complicated about the functioning of the Intermediate Credit Banks, or the requirements which cooperative marketing associations must meet to be eligible for loans.

"The cooperative must show that it fills a need, controls a sufficient amount of the commodity to be able to function economically, and has a sound business organization. Plans of organization vary according to the problems encountered in producing, processing, marketing and financing the commodity to be handled; but in all cooperative organizations efficient and trustworthy officers are essential to success. Other important factors to be considered in extending credit may be summarized as follows: 1. Proper organization and legal right to pool and pledge the commodity as security for loans. 2. The commodity, its market and relation of the present crop and holdover to normal consumption. 3. Amount of loan desired and percentage of value to be advanced to members upon delivery of the commodity. 4. Facilities properly to receive, grade and store the commodity, and a sound program of orderly marketing. 5. Arrangements for short-term credit

through commercial banks. 6. The attitude of the members and past record of the organization.

"A loan of not to exceed 75 per cent of the value of a staple agricultural product, stored in a properly supervised and bonded warehouse, fully insured, and supported by a sound marketing program and a contract requiring the maintenance of a good margin of security at all times, can properly be classed as gilt edge. Obviously, all commodities are not entitled to the same consideration from credit agencies. For example, loans on wheat, cotton, and wool, for which there is a daily, world-wide market, may be classed as liquid and offer every element of security. Equally safe loans may be made on other products which do not enjoy such wide markets. The fact that the market is more restricted and the loan cannot be liquidated immediately argues only for broader margins of security, more careful supervision, and wise marketing,

"Loans aggregating over $91,000,000 have been made to cooperative organizations. These loans, distributed among associations with a membership of about 600,000 farmers and stockmen, may seem small compared to the total business of the cooperatives of the country; but they are in a sense the keystone of the arch of cooperative financing. As a further aid to cooperative marketing and stable agricultural credit, loans aggregating more than $72,000,000 have been rediscounted for banks, loan companies and farmers' credit corporations. The mere existence of the Intermediate Credit Banks encourages private financial institutions to make loans. Cooperatives have often found commercial banks willing to give credit on very reasonable terms as soon as advances have been approved by the Intermediate Credit System. The moral assistance rendered the cooperatives by the Intermediate Credit Banks has thus been of even greater importance than that rendered by the actual advances." [2]

Members Loan to Association.—The original Rochdale pioneers encouraged their members to invest their money in their own company, receiving certificates which would be cashed by the company if necessary. The investment was safe, returned a fair rate of interest, and the company had the use of the money, which cut down the amount which must be obtained from outside sources and thereby strengthened their finances. The company really served as a savings bank for members. While the money was not technically borrowed of members, the actual effect was the same, since interest was paid and the members could make withdrawals under certain conditions.

Some cooperative associations borrow money from their own members, usually upon a demand note, at rates a little higher than can be obtained from a savings bank. The members who loan money in

[2] Williams, A. C. Financing of Cooperative Associations through Intermediate Credit Banks. American Cooperation, Vol. I, pp. 398–400.

this way certainly take an active interest in the success of the company. It is less satisfactory in one respect than the sale of stock, because in a time of business depression, when loans from banks are hardest to secure, the members make withdrawals to secure cash for personal use.

Withholding Payments to Members.—Some cooperative selling associations are financed almost entirely by withholding payment until the product has been sold. For example, most livestock shipping associations make no payment to producers until the net proceeds have been received from the buyer or commission firm. The manager then deducts the association fees and distributes the remaining proceeds to the men who owned the stock. Since livestock is usually sold within a day or two of the time it reaches the terminal market, the shipper receives payment with but little delay.

When a product is placed in storage by a cooperative association for distribution throughout the year or in the hope of receiving a higher price at some future time, the members who are financing the association by waiting for their returns sometimes feel that payment is unduly delayed. Some associations have not made final payment until two or three years after the product was received. Members of such an association who need the proceeds of a crop for the payment of pressing obligations can hardly be censured for feeling that cooperation is not always 100 per cent efficient. As a matter of course, all storage charges, including taxes and insurance, are deducted from the returns of the member. At least one association has claimed that the plan of paying for a crop in three or four installments is an advantage to the grower because it distributes his income throughout the year. Not all the members feel so certain that they are unable to handle money.

The New York Milk Producers' Association and some other organizations have used a variation of this plan in order to secure fixed capital. A certain amount per unit is deducted when payment is made for the product delivered by the members. The members receive certificates for the amounts deducted. These certificates are payable at some definite future time which may be several years distant. This method has the advantage of requiring each member to contribute to the capital in proportion to the use that he makes of the association. Such certificates are usually transferable and sometimes bear interest.

Commission House Loans.—"The financing of cooperative marketing organizations by commission houses is most common among the farmers' elevators in the Northwest. By agreeing to consign a certain

portion of its business, ranging from three-fourths to all of it, to the commission house, credit will be extended to the elevator. The general plan is that the elevator draws upon the commission firm from time to time as funds are needed, all shipments of grain to be made to the firm and credited upon receipt to this open account. It is estimated that over 51 per cent of the farmers' elevators in the Northwestern states are financed wholly or in part in this way.

"In other grain sections practically none of the elevators are carried by the commission houses, they being financed by the local banks or having sufficient working capital of their own to carry on the business.

"As a rule an elevator which is financed by a commission firm is handicapped in that it is impossible to take advantage of other markets which may from time to time offer better prices than can be obtained in the one in which the commission firm, through which it must sell, is located. Elevators not dependent in any way upon commission houses can ship first to one and then another, and in this way promote competition among the commission men in securing the best prices possible. The commission houses have served a useful purpose in the financing of the farmers' elevators, in that sometimes they gave financial aid when it was impossible to secure it elsewhere. Elevators are turning more and more each year to local sources for their funds, which no doubt is a better arrangement than being dependent upon commission firms. A relatively small number of the produce and fruit organizations are financed by commission men."[3]

Accumulating Surplus Funds.—The majority of more conservatively managed cooperative companies organized on the capital-stock plan set aside into a surplus fund a portion of their profits each year when profits are made. This surplus fund increases their working capital, enhances their credit, and decreases the danger of capital impairment during those years when the business shows a loss. The majority of elevator companies, for example, at the time of organization usually invest nearly all their funds in an elevator and other fixed assets. The working capital must be secured from loans. If the company is conservatively managed it accumulates a surplus which decreases the amount of money to be borrowed. Since neither dividends nor interest is paid upon the surplus, it is a very inexpensive source of capital. Some cooperative companies follow the example of the ordinary corporation and declare a stock dividend when the surplus is equal in amount to the par value of the outstanding stock.

Some fruit and produce companies build up a surplus fund by making an assessment upon each package which they handle, or by deducting a certain portion of the returns for all goods shipped

[3] Yearbook, U. S. D. A., 1914, p. 203.

through the association. The member may secure his portion of the surplus upon withdrawal from the association. This method increases the assets of the company, but is perhaps more in the nature of a forced loan than of a true surplus.

Sale of Memberships.—In many "non-stock non-profit" companies a membership fee is charged. The total amount of money raised by this method is usually small, and is ordinarily used for some specified purpose. Some capital stock companies have utilized such a fee as a means of paying the expenses incident to organization.

Assessment of Members in Proportion to Use Each Will Probably Make of the Association.—This has sometimes been used by cooperative associations organized for marketing fruit. Under this plan the member who has 20 acres of orchard should pay four times as much toward the erection of a packing house and purchase of equipment as a man who has only 5 acres of orchard. This is not a very exact method of apportioning capital expenditures since yield is obviously not in direct proportion to acreage. A young orchard, or one that has been poorly cared for, will yield more lightly than orchards that are in their prime. The plan is apparently inferior to the capital-stock plan where dividends paid on stock tend to equalize differences in capital invested by giving each member a fair interest return for the use of his money.

Commission on Business Handled.—The charging of a commission on business handled is ordinarily for the purpose of paying current operating expenses. The typical livestock shipping association operates on this plan. The initial investment is small and is often provided for by a membership fee. The association retains a commission, usually a certain number of cents per hundredweight, which pays current expenses. Fruit marketing associations often follow this plan, charging so much per bushel, per hundredweight, per box, or per unit. The commission charged is sometimes large enough not only to pay the operating expenses, but also to pay dividends on stock and to provide for the accumulation of a surplus and the purchase of fixed assets. When such a company pays a patronage dividend it is really returning to the members a part of the commission originally charged. The company has really been "playing safe" by retaining enough as a commission to care for any emergency. If the emergency does not occur the member receives a deferred payment or patronage dividend. This method is more satisfactory to both management and members than having to make a special assessment in order to meet some unexpected loss.

The "non-stock non-profit" company makes the same use of its commission as the stock company except that no dividend is paid on capital stock.

Profits Earned on Business Handled.—The so-called "profits" of a company which buys the products of its members for resale are ordinarily utilized in the same way as the commissions earned by companies which merely handle the goods for their members. The typical cooperative elevator, for example, buys grain on a margin that not only permits the payment of current operating expenses but also provides for losses that may occur due to a falling market or other causes. Expenses of operation are, of course, paid during the year. At the end of the year the board of directors should provide for depreciation of elevator and other buildings, pay a dividend on stock at the current rate of interest, set aside something for the surplus fund, and if there are any profits remaining use them for the payment of a patronage dividend. Each person who sells grain to the association contributes to these various purposes for which money is needed. The patronage dividend is really the payment of the balance remaining out of the margin retained by the elevator for the payment of operating and other expenses when the grain was first purchased. As was discussed in Chapter I, this so-called "profit" is really a saving, which is returned to the producer at the close of the business year.

Capital Must be Adequate.—The organizers of a cooperative association must select the method or combination of methods of obtaining capital which best fits their particular conditions. In reaching their decision they must bear in mind that no business can operate unless someone furnishes capital and that the larger the business the more capital is required.

In a livestock-shipping association the shippers finance the operations almost entirely. No expensive equipment is required and the shippers receive the balance remaining from the sale of stock after freight, yardage, commission charges, and all other market expenses have been met. In the operation of an elevator we find the other extreme—a large initial investment in building and equipment and a prevailing business custom which decrees that grain shall be paid for upon delivery. Between these two extremes we find almost all possible variations in the proportion of the capital utilized in the marketing process which is furnished by the shippers, and that which is furnished by the association.

When a cooperative association stores a very considerable part of

a crop to be sold as market demands require, the producer often demands a part of his money in advance of the actual sale. This creates an entirely different situation than does the marketing of grain and livestock in the Corn Belt. The farmer may store corn on his own farm, but he would have more difficulty in providing his own storage room for apples, prunes, or raisins. Fat stock must be sold when ready for market; storage is therefore a question for the packer and not for the farmer.

Perhaps as good an argument as can be given of the imperative need for adequate capital comes from a man who has had experience with a large association organized without capital stock. His conclusion is as follows:

> "I am never again going to organize any big association to handle a large volume of business without even a 2-cent postage stamp in the way of assets. It cannot be done, and if it can be done it must be in a way that is not appreciated by those who do it. Our financial problem has been very serious. I think the man who invented non-capital-stock organizations—that is, organizations that have no paid-in capital or no pledged capital stock—should be tested for lunacy. At least he has invented something that he himself should never be willing or anxious to try to promote." [4]

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[4] Rubinow, S. G. The Minnesota Potato Growers' Exchange. American Cooperation, Vol. II, p. 480.

CHAPTER IX

POOLING

A pool, as defined by Webster, is any aggregation of the interests or property of different persons made to further a joint undertaking or end by subjecting them to the same control and a common liability. Used as a verb, to pool is "to contribute to a common fund on the basis of mutual division of profits or losses; to make a common interest of; as, the companies pooled their traffic."

In order to understand the various types of agricultural pools it is necessary to study first the history of industrial pools.

The Purpose and Use of the Pool.—Many cooperative associations are now utilizing the principles of pooling to distribute risk and equalize profits or losses among members, but the early use of the pool was to restrict competition. As early as 1853 a pool was formed by brass manufacturers, and one in the cordage industry was formed in 1861. Pools became common with the increase in competition and large-scale production following the Civil War. Professor Ripley in 1916 summarized the use of the pool as follows:

"The pool is probably the oldest, the most common, and at the same time the most popular mode of obviating the evils of competition. Industrial pools, in fact, appear at every stage of our economic growth since the Civil War. They are not even eliminated by gigantic mergers, so long as the latter fall short of complete monopoly. Thus even the most powerful present-day combinations, such as the United States Steel Corporation, have at times found it necessary to become parties to pooling arrangements with independent producers. The secrecy of these agreements owing to a wholesome fear of the law, has rendered them apparently less wide-spread and effective than they perhaps were in fact." [1]

Many of the pools have been formed to regulate the output of some commodity and thus influence prices and profits. The amount of goods which any firm could produce was limited, and in that way

[1] Ripley. Trusts, Pools, and Combinations, p. x of Introduction. Ginn & Co.

the supply decreased so that demand forced up the price. Since each firm could produce only a specified amount, all firms in the pool could sell their entire product at the advanced price. Ordinarily the firms entering the pool agreed in advance upon the percentage of the total output which each firm could furnish. Any firm exceeding its allotment was penalized.

The Steel Rail Pool.—One of the best examples of the pools which regulated production was the steel rail pool, formed in August, 1887. It has been described as follows:

> "The members of this pool produced more than 90 per cent of the country's output of steel rails. By the agreement adopted the total output, as then agreed upon, was divided among the companies in definite proportions, and provision was made for a Board of Control, which, with the written consent of 75 per cent of the tonnage might increase the pool's output from time to time. The fixing of prices was not provided for in the memorandum of agreement, though an informal understanding was reached. This pool was comparatively successful. The large capital necessary for the manufacture of steel rails discouraged new competition, and the practice on the part of railway officials of buying the necessary rails once a year acted as a stabilizing factor. Nevertheless, the pool collapsed in 1893, because of a disagreement over the division of tonnage, the situation being aggravated by the prevailing industrial depression, which rendered imperative a reduction in the total output. In 1894 the pool was reorganized, though not without considerable difficulty. The depressed state of the trade led to new violations of the agreement in 1896 and in February of the following year the pool was again broken up. This second dissolution of the pool was followed by a drastic reduction in prices. Whereas the pool price for steel rails had been $28 per ton, upon the termination of the pooling agreement the price fell to $16.50." [2]

Extent of Pooling.—At various times pools have been formed by meat packers, cotton producers, owners of coal mines, railroads, and grain elevators, and among manufacturers of rails, bathtubs, iron pipes, salt, sugar, tobacco, wall paper and a long list of other commodities. Not only have pools practically precluded competition in many of these commodities within the United States, but "international pools have been established in the steel rail, thread, glass, bottle, aluminum, gunpowder, calcium carbide and meat industries." [3]

[2] Jones, Eliot. The Trust Problem in the United States, pp. 9, 10. The Macmillan Co.

[3] Jones, Eliot. The Trust Problem in the United States, p. 13. The Macmillan Co.

Advantages of the Pool.—The advantages of the pool which have made its use as a device for restraining competition so extensive and long continued may be summarized as follows:

1. The pool permits manufacturers, railway owners, and others to limit production, stabilize prices, and enforce trade practices without entirely sacrificing their independence. Each corporation continues to operate its own business in its own way, except as governed by stipulations of the pool.
2. The pooling system does not remove the financial inducement to economical administration of the individual properties. Each manufacturer continues to operate his own plant, or each railway its own lines, and each can therefore increase profits by economies of operation as well as by receiving a better price for his products. The complete merger, by removing competition, has sometimes retarded initiative and rendered operators careless concerning production costs. It is very generally believed that monopolistic industries are less efficient than those operated under competitive conditions.
3. The pool provides a flexible form of organization which can be adjusted to meet the particular conditions of each industry.
4. The pool does not increase the capitalization of an industry or add to the expense incident to the merging of two or more companies.

Disadvantages of the Pool.—1. Pools have not been able, as a general thing, to maintain either stable prices or definite policies. In other words they have not been able to control the production of their members. Since each member operates his own independent business there is abundant opportunity for a conflict of interests. A member may see a chance to dispose of a much larger quantity of goods than his allotment permits, and to lower his cost of manufacture by increasing his output. In times of business depression the temptation to make a slight reduction in price, clear out stock, and withdraw from the pool is especially strong. Pooling agreements have usually been of short duration.

2. "At common law the American courts have usually held pooling agreements to be contracts in restraint of trade and therefore against public policy. Pools have therefore been extra-legal agreements not enforceable by the courts but dependent upon the good faith of the parties and hence lacking in permanence."[4]

[4] New International Encyclopedia.

While the pools that have been discussed were necessarily secret the public could not always be kept in complete ignorance of their existence. When the price of some commodity rose without apparent cause buyers often assigned the real reason, and when prices fell because of the breaking of a pool the facts sometimes became fairly well known. Men interested in obtaining a monopoly were therefore interested in obtaining a substitute for the pool that would not have its defects, and the public began to talk of legislation.

Trusts, Holding Companies, and Mergers.—The failure of the pool to maintain complete monopoly control was followed by the development of the trust. The most important period of development was from 1888 to 1897. The trust was followed by the holding corporation which is typified by the United States Steel Corporation. A complete merger has in some instances replaced the holding company. The pool, the trust, the holding company, and the complete merger are alike in that they are monopolistic. They originated from the desire to form a combination that would restrain trade and restrict competition.

Anti-monopoly Legislation.—The idea of monopoly has always been distasteful to the American people. We wish men to win success through work, courage, and initiative—the ability to do something a little better than their fellow men—and not through special privilege or unfair advantage. It was therefore but natural that legislation should be enacted to curb the rapidly developing monopolies of the late eighties.

In 1890 Congress passed the well-known Sherman Anti-Trust Act, a part of which is quoted in Chapter VII. This act attempts to prevent monopoly in interstate commerce, but does not affect any company or organization that limits its activities to a single state. Many of the states have supplemented the Sherman Act with anti-monopoly laws designed to curb monopolies that do not cross state lines. In general, these laws prohibit trusts, pools, and combinations, and prescribe penalties for persons, partnerships, companies, corporations, or associations that attempt to fix prices or prevent the fullest competition. If there has been an increase in the number and power of monopolies during the past thirty years, it is not because of lack of effort on the part of our lawmakers.

In recent years, farmers have in many instances adopted, with more or less change, some of the devices which have been used so successfully by other men. Pooling, which was once regarded as among the most iniquitous of practices, is now carried on success-

fully by many organizations of producers. The Clayton Act and the Capper-Volstead Act, which are discussed in Chapter VII, contain provisions exempting associations of agricultural producers from provisions of the Sherman Act.

Pool and Non-pool Methods of Payment.—Cooperative elevator companies, such as have been described in preceding chapters, ordinarily make payment in full upon the delivery of grain purchased. The price paid the producer depends primarily upon the current market quotation at the time the grain is purchased. Nearly all elevator managers utilize the radio and telephone as well as market papers and market letters in keeping in touch with the ever-changing prices paid for cereals. Knowing the terminal market price of different grades of corn, wheat, oats, and other cereals, and the cost incident to getting them to market, the elevator manager is in a position to decide what price he can pay. If some other buyer has a better outlet than the terminal market and therefore offers a better price, he usually gets the grain. At nearly all points in the Grain Belt where there is a cooperative elevator, the price of grain is a strictly competitive price.

Nearly all cooperative elevator managers sell grain as soon as possible after purchase in order to reduce the risk incident to fluctuating prices. Sometimes the grain is loaded out as soon after delivery as cars are available and shipped to some commission house at a terminal market; more often it is sold "on track" as soon as loaded because the manager does not wish the company to carry the risk of possible price decline while the grain is in transit. Managers often sell grain for future delivery as soon as purchased because they wish to avoid the speculation incident to ownership of the grain from the time it is purchased of the farmer until it can be delivered to the elevator and loaded into cars. Each seller gets what his grain is worth when sold, and the elevator manager usually protects his company from loss incident to a possible market decline. As a matter of course, by selling grain as soon as purchased the elevator company loses the chance of making a speculative profit if the price of grain should rise.

In an agricultural pool all the grain or other product of a given grade is mixed before selling. The producer receives the average price for which the entire pool sells, less handling charges and other expenses. Strictly speaking, the pool member does not sell his product. He merely delivers it when and where directed, and the product is handled by the pool manager and his assistants. The pool not only sells the product but often grades and stores it.

A Simple Type of Producers' Pool.—Let us suppose that the potato producers of some locality whose crop is usually ready for market in August become dissatisfied with selling to local buyers and decide to form a cooperative marketing association. There is no established market for potatoes as there is for grain and livestock. Of course, potatoes may be shipped to commission men or to produce dealers in various cities in much the same way that grain is shipped, but there is no place where potatoes may be sold on a trading floor in the same way that grain is sold on the Chicago Board of Trade or the Kansas City Grain Exchange. There is, in fact, no place where the buyers and sellers of potatoes may meet as advantageously as do the buyers and sellers of livestock at the important livestock markets.

The surplus wheat grown in any given locality usually finds its way year after year to the same terminal market or at most to some one of two or three terminal markets, and the manager of a cooperative elevator who ships out ten cars of wheat in a single week is very apt to ship them all to a single market. He usually knows what to pay for grain because he knows what such grain is selling for on the market to which he ships, and he often sells "on track" or "to arrive" as soon as a car is loaded. The price of wheat sold to millers by country elevators is determined more or less directly by the price that could be obtained for the wheat at some terminal market.

Potatoes are much more perishable than grain, and the market much less definite. A cooperative potato-shipping association must decide how it is going to market its product. The potatoes may, of course, be sold to local buyers, but that may be as unsatisfactory a method of sale for the association as for individual growers. The potatoes may be shipped to some commission merchant in a large market, but which market? Omaha, for example, receives potatoes in the autumn not only from western Nebraska but from the Red River Valley, Wisconsin, Colorado, and Idaho. It is relatively easy to glut the market. Should our cooperative association ship all its potatoes to the one market, or should it send a car or two to each one of several markets, such as Omaha, St. Joseph, Kansas City, St. Louis, and Little Rock? As a matter of course cars of potatoes are often started rolling toward some one consuming center and diverted en route to some other city that seems to furnish a better market.

An association might ship out six cars of potatoes of the same grade upon some one day, each car the product of a different grower and each consigned to a different market. In all probability no two cars would net the growers the same price per bushel. Perhaps one

car would reach a city where potato stocks were scanty, and as a result might sell at a high figure. Another car might reach its destination just when that market was flooded with cars from other shippers and the potato market be demoralized in consequence. Possibly it would be necessary to reconsign the car to some other market. For example, two carloads of the same grade and variety of potatoes were shipped from a Nebraska town upon the same day to two different markets. One carload netted the grower nearly four times as much per bushel as did the other. Should each member of an association take his chance or should an equable division be made of the returns?

The daily, semi-weekly, or weekly pool is well adapted to such a situation. The net returns from all the cars composing the pool are added together, and each man is paid his proportionate share of the receipts of the pool, without regard to the price received for the potatoes grown by him. They may sell for more or less than he actually receives. Only one grade and variety should be included in any one pool.

Seasonal Pools.—Pools sometimes include an entire crop, but this seasonal pool is not adapted to the conditions surrounding the association under discussion. Sometimes potatoes sell higher in September than in early August, depending, of course, very largely on crop conditions. A large carry-over of old potatoes and a good crop of new potatoes in the southern states usually results in a relatively low price during the early summer. Such conditions existed in 1918 and again in 1921. The 1918 crop did not prove to be as large as the 1917 crop and as a result the price rose in late summer and early autumn, reaching the high point of the year in October. This condition was practically duplicated in 1921. The potato producers of the Kaw Valley and lower Platte Valley who dug early and hurried their crop to market did not do as well as the men who waited for a later market. In 1922 the conditions were reversed, the price falling rapidly during September and October. Should the mid-season producer dig early without regard to his other farm work or should he subordinate potato digging to taking care of his other crops? Since most of these men have several farm enterprises and since the yield of the late potato regions is not known upon August first, the best plan apparently is for each grower to dig as best suits his own convenience and for the association to sell the product in short-time pools.

The seasonal pool has been used in marketing raisins, rice, apples, oranges, lemons, peaches, prunes, potatoes, tobacco, cotton, wheat, and

several other products. Each producer receives exactly the same price for his product as does his neighbor who produces the same grade. The opportunity for individual speculation, so far as time of marketing is concerned, is eliminated, and so also is the opportunity for a man to profit by superior knowledge, or from the ability to place a product on the market a little earlier than do other growers.

Probably the most conspicuous example of the use of the seasonal or yearly pool has been in the marketing of such agricultural specialties as raisins, prunes, and soft-shelled walnuts. Each of these specialties is produced in a comparatively limited area, located at some distance from the most important consuming centers. Raisins and prunes must be dried before being sold to the consumer, and walnuts bring the best returns when graded. The California farmer cannot place dried fruit in common storage as is commonly done with wheat, corn, and oats in the Grain Belt. Instead of farm storage being most economical for perishable fruits and fruit products, it is more expensive than is storage in a large plant.

The demand for such staple products as wheat, corn, and cotton has long existed and markets have been organized to care for their sale. The demand for such agricultural specialties as raisins and soft-shelled walnuts has been greatly increased, in fact we might almost say created, by advertising and salesmanship.

The increased consumption of raisins and walnuts has very little effect upon the consumption of staple foods. We are apt to eat them in addition to the other food that we have been accustomed to eat. The advertiser has merely added to the ever-increasing list of human wants. On the other hand, when a miller advertises his particular brand of flour and as a result increases its sale, the sale of some other flour is decreased. A national advertising campaign would doubtless increase the total consumption of wheat flour, but the consumption of such other staples as potatoes and meat would necessarily decrease. Our capacity to consume staple foods is limited. As a nation we overeat to such an extent that dietitians tell us that the average American is digging his grave with his teeth.

It is also noticeable that the cooperative organizations which have followed the plan of annual pooling consistently and successfully for many years are handling products the acreage of which does not vary widely from year to year. Several years are required for a vineyard or an orchard to come into full bearing, whereas the acreage of corn or wheat can be increased in a single season and is increased whenever conditions warrant. In other words the high price obtained by the

raisin growers for several years may have depended less upon pooling than upon the fact that demand was greater than supply and this condition continued for several years. The crucial test for such an organization comes when supply outstrips demand.

Powell's Opinion of Pooling.—G. Harold Powell, who was for many years manager of the California Fruit Growers' Exchange and who doubtless had a better opportunity to study the cooperative marketing of fruit than any contemporary writer, discussed pooling as follows:

"In the peach business and in small-fruit shipping the growers may adopt a daily or a weekly or a seasonal pooling system; in the citrus business a pool may extend over ten to thirty days or even through an entire season; and in the apple business the fruit of an entire season may be handled through a single pool, though a separate pool may be made for each of the leading varieties, for the different grades, and sometimes for the different sizes in each grade. In the orange and lemon growers' associations the different grades are pooled separately, but the sizes in each grade are generally pooled together. In theory each grower has the right to contribute to each pool his pro rata of the fruit of the association as a whole. The manager of the association usually apportions to each grower his quota of the fruit to be shipped in a pool in accordance with his acreage. The pooling system simplifies the business methods of an association and is growing in favor as a practical working plan.

"There are a number of factors that are likely to contribute to the success or failure of the pooling system. To be successful, the handling, grading, and packing of the fruit must be under the direction or control of the association in order to insure uniformity. It is not often successful when these matters are in the hands of the grower. It depends further on having a large proportion of the fruit of an association of similar character, otherwise a member whose fruit grades largely into a low class becomes dissatisfied when he learns that his neighbor's fruit grades higher. It is characteristic in the fruit industry that each grower thinks he produces the best fruit in his community, and where it happens that he is paid for a larger proportion of the lower grades than his neighbor, he may either quit the association, or he may adopt better cultural methods in order to improve the quality of his fruit. As a matter of policy the books of an association should be open to every member so that he may see whether he is producing as large a proportion of high-grade fruit as the other growers in the community. This knowledge leads to a friendly rivalry among the members in producing the largest proportion of the higher grades.

"There is considerable variation in the average quality of different lots of fruit in the same grade, even under the most rigid system of grading. There is a minimum standard in each grade below which the fruit may not fall, but there is a marked variation in the fineness

of texture or of finish, in the color and general style of different lots of fruit that may fall within a grade as established by the association. These differences in texture and general style are sometimes due to the soil or to other local conditions, the fruit of the same variety on other soils or in other locations in the same section showing characteristic qualities. On the other hand, the grade of fruit grown under similar conditions of soil and location depends largely on the skill of the individual fruit-grower. The association can therefore utilize the differences in the grades of the fruit of the members as a powerful educational factor in stimulating better tillage, better pruning and thinning, and a better cultural system in a community as a whole.

"There is another side also to the pooling system. It may discourage the skillful grower from producing fruit of the highest average grade. If a member is an unusually skillful grower, he will not get the full advantage of his extra-fine fruit in a pool, because the practical effect of the pool is to lower the average price of the finest and to raise the price of the fruit that can just enter a grade. An association ought, therefore, to be composed of growers who are located on similar soils and in other similar conditions and who possess somewhat similar cultural skill. In some of the northwestern apple-growers' associations the fruit of a large area is pooled. The Spitzenbergs that grade fancy under the rules of the associations may vary considerably in different localities in the same section. The higher orchards often yield better apples than the lowland orchards. Some of the unusually good growers may produce a crop of apples in which the fancy grade is above the average of the fancy grade of the pool, by better thinning, better spraying, and better average cultural care. These growers are likely to become dissatisfied with the association and may withdraw to protect their business interests. Small associations composed of growers similarly located and possessing similar cultural skill avoid these difficulties. A community should, therefore, form several associations, each grading and packing its fruit under the brands of the association. These associations may then federate into a central marketing agency which will market the fruit of each association as a unit or furnish the facilities for marketing, thereby preserving the advantages which soil, location, and cultural skill give to a group of fruit-growers who are similarly located.

"The opponents of the cooperative plan of fruit-handling understand these difficulties and utilize them to create dissension among the members of an organization. They are practical difficulties that should be recognized in the formation of associations. Unless these fundamental conditions are carefully guarded, the pooling system may lower the average grade of the fruit of a community, because the grower, realizing that the identity of his fruit is lost in a pool, lets down on the fundamental cultural operations that produce the highest grades of fruit, and trusts to the better fruit of his more skillful neighbors to raise the average net return for the grades in which his fruit is pooled."[5]

[5] Powell, G. H. Cooperation in Agriculture, pp. 228–231. The Macmillan Co.

Advantages of the Agricultural Pool.—The agricultural pool is usually credited with three advantages:

1. A pool provides volume of business, and volume often makes possible certain economies.
2. It distributes risk.
3. It aids an organization in establishing standards and creating a reputation for its products.

Whether or not a pool provides an increased volume of business depends on several factors. If a local elevator is handling all the grain shipped out of a community, the volume of business cannot be affected by pooling. A large number of elevators might combine in either a pooling or a non-pooling organization. In the grain business it is difficult to find any definite relationship between pooling and size of business.

As has already been discussed, some agricultural specialties, such as raisins and soft-shelled walnuts, are apparently well adapted to the pool system of marketing. These are marketed by large cooperative organizations. Probably the type of product and pooling have a much closer relationship than have pooling and volume of business.

Pools sometimes distribute risk. This is probably their most useful function. The means by which this distribution is accomplished is well exemplified in the potato growers' pool previously described.

Pools must of necessity establish standards and grade the products delivered in order that each producer may be paid in accordance with the grade that he delivers. The influence of some of the large pooling organizations in the favor of standards and established brands will be discussed more fully in the chapters that treat of the marketing of raisins, prunes, tobacco, cotton, and eggs.

Agricultural Pools and Price Fixing.—Agricultural pools have sometimes been credited with price-fixing power. This price-fixing power has, in fact, often been urged as the chief advantage of the agricultural pool. The truth of the matter is that the agricultural pool can fix prices to the same extent and under the same conditions as the industrial pool, but can go no further. Economic law is of universal application. Control of production is essential to control of price. The difficulty encountered by the industrial pools in controlling the production of a few members is an index of the difficulty that an agricultural organization faces when it attempts to control the production of many thousands of members who are competing with other thousands of non-members.

The pool that is formed for the purpose of controlling price may be classed as a speculative pool. Its success depends primarily upon monopoly and not upon increased marketing efficiency. This type of pool succeeds only if the price of the pooled product rises. If the price falls, the pool fails. A farmers' cooperative association that relies for its success upon this type of pool is in a dangerous situation. If the pool actually does secure a monopoly and increase the price, production is certain to increase. An increase in production creates a surplus, and a surplus can be marketed only at a decreased price. The initial success of such a pool is therefore a cause of ultimate failure. Before agricultural producers place too much confidence in a speculative pool they should study the history of industrial pools, which, as has already been discussed, have succeeded only so long as they could control production.

Pooling not Essential to Cooperation.—Because so many cooperative organizations pool the products of their members, there has sometimes been a tendency to confuse pooling and cooperation. The industrial pools formed for the purpose of securing a monopoly are certainly not cooperative in principle.

The pool that is formed in order to secure a better distribution of market risks, a broader market outlet, a larger volume of business, or a more uniform pack is on sound economic ground. Such objectives are cooperative in principle.

Pooling is not cooperation and is not even an essential principle of cooperation. A cooperative organization may pool and so may a monopolistic organization. Some cooperatives pool the products that they handle, and other cooperatives never pool. The type of product to be marketed and the method by which it is marketed are really the factors which determine whether or not a cooperative should pool.

The Sun Maid Raisin Growers, the California Prune and Apricot Growers, Inc., the Burley Tobacco Growers' Cooperative Association, and various other organizations which have had experience with pooling will be described in later chapters.

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CHAPTER X

POOLING WHEAT IN THE UNITED STATES

Nearly all marketing organizations prospered during the post-war boom. Some of the cooperative associations which practiced pooling secured unusually high prices for their products. Advocates of pooling were quick to attribute the high prices to their system of marketing. As a result, pooling was widely discussed. The attention of grain growers was naturally turned to the possibilities of this feature of marketing. The men most interested in pooling grain were naturally those who lived in regions where grain marketing was not already dominated by farmer-owned elevators.

Two Methods of Marketing Grain.—The rapid development of railways and modern elevators in the upper Mississippi Valley made possible the handling of grain from the threshing machine to the flour mill, terminal elevator, or ocean steamship with a minimum of human labor. The familiar grain box on the farmer's wagon, the dump at the local elevator, the transferring of grain within the elevator by means of buckets attached to an endless chain, and railway box cars coopered to hold grain in bulk rendered unnecessary the expense incident to sacking grain. As has already been related, the producers' fight for the privilege of handling grain at the local market was won many years ago and cooperative elevators have increased in number and power throughout a large portion of the upper Mississippi Valley.

In the Pacific Northwest conditions were very different. Railways were often far distant, and the highways over which grain must be hauled were often far from good. As a result grain has been handled there in sacks. The system is cumbersome and expensive and not conducive to the development of small independent farmers' cooperative companies similar to those so common in the Middle West. The first attempts made to market grain cooperatively in this region were not very successful. This was not because the farmers were indifferent but because the conditions there were different from those prevailing in the region where cooperative grain marketing was first developed.

The Northwest Wheat Growers, Associated.—This company was organized in Washington in 1920, and soon reached other states in the Northwest. Its plan of organization provided for a grower's contract with the Association, extending for seven years, and a pooling of wheat by grades. The producers were to be paid the actual average selling price for the grade of wheat delivered, less only actual freight and other handling and operating charges. As the Association had no capital stock a subsidiary corporation was planned to own elevators and warehouses. The farmers were to be paid in part for their grain upon delivery, the money being borrowed from banks upon warehouse receipts.

The first year, 1920, more than 1,000,000 bushels were handled, and the second year 12,000,000 bushels, which was about one-sixth the total wheat production of the Northwest. About 1,000,000 bushels came from Montana and the remainder from Idaho, Washington, and Oregon. In 1922 the organization entered North Dakota and increased its volume of business to 22,000,000 bushels.

It is possible that the Northwest Wheat Growers secured for their members in 1920 and 1921 a better price for their wheat than the average price received by non-members. Their competition also apparently raised the price paid to all northwestern growers. A statement issued to show the value of the Wheat Growers to Pacific Coast farmers reads in part as follows:

> "Throughout a number of pre-war years, Government figures show that wheat growers of the Pacific Coast, on the average, secured 88 per cent of the prices received by middle-western farmers. But during the 1921–1922 season, the first one of large-scale operation of the association, the coast price increased until it amounted to 95 per cent of middle-western prices, and during the last season, from July 1 to January 1, 1922, coast prices have been 102 per cent of those paid to farmers in the Middle West. In other words, the west-coast wheat growers through their marketing associations increased their prices 14 per cent compared with prices paid elsewhere in the country." [1]

It is, however, probable that another force, more potent even than the Northwest Wheat Growers, was largely responsible for the change in the relationship existing between the price paid farmers for wheat in the Middle West and the price paid in the Pacific Northwest. Railway transportation has always been more expensive than water transportation and was much more expensive in 1921–22 than in

[1] Quoted by The Dakota Farmer, Vol. 43, No. 7, p. 341.

pre-war years. The cost of operating the railways increased enormously between 1915 and 1920, and as a result their freight rates were increased. The world's shipping was increased to care for war needs, and as a result in 1921 and subsequent years many vessels were seeking cargoes, and the rates for ocean shipping were relatively low. In April, 1923, wheat could be shipped by sea transportation for about one-tenth or one-twelfth the cost per mile that it could be shipped by land. The completion of the Panama Canal in 1915 reduced the cost of shipments by water from the Pacific Northwest to western Europe. Because of unusual demand for shipping at the time the canal was completed, its full effect upon transportation was not felt until some time after the close of the war. The actual cost of shipping wheat to Europe from middlewestern farms was greater in 1922 than was the cost of shipping wheat from Washington and Oregon. The reason, of course, is that the wheat from the Middle West had to travel so much farther by rail to reach the sea than did the northwestern wheat that the extra rail cost more than counterbalanced the greater distance that the northwestern wheat traveled by water. Transportation costs were doubtless a more potent factor than pooling in making this relative change in price.

The active life of the Northwest Wheat Growers, Associated, was considerably less than the length of the contracts. The Idaho pool passed out of existence early in 1924 and, during the summer of that year, "first the Washington state association and then the Oregon state association voted to suspend business." Many members of the state associations apparently decided that they could secure larger net returns through regular trade channels. The pooling plan and long-time contract did not insure either successful operation or long life to the organization.

The National Wheat Growers' Association.—The National Wheat Growers' Association was organized at Hutchinson, Kansas, in May, 1920. They made an active campaign and the following winter claimed to have 50,000 members enrolled. Some of these were in each state of the wheat belt from North Dakota to Texas. The membership fee was but $3, which left the association little working capital after paying the solicitors who secured the membership. At the time of its organization and during July, 1920, wheat was worth from $2.25 to $2.50 per bushel in much of the territory where it operated. The price fell in August but did not go below $2 at Chicago until November. The association urged its members to hold their wheat for $3 per bushel and reduce wheat acreage. The men who followed

its advice eventually received about $1 to $1.25 per bushel for their crop.

After the complete failure of their first plans the National Wheat Growers remodeled their organization upon the general plan of the Northwest Wheat Growers, Associated. The organization was by states and each member signed a binding contract. They marketed wheat of the 1922 crop in Oklahoma, North Dakota, Kansas, and Nebraska. The North Dakota and Nebraska associations sold through the Northwest Wheat Growers, Associated.

Central Sales Agency.—The Southwest Cooperative Wheat Growers' Association, with headquarters at Wichita, Kansas, was organized in 1926 as a central sales agency for the Kansas, Oklahoma, Colorado, and Nebraska wheat pools. The capital stock of the association was placed at $200,000, being divided into $190,000 of preferred stock and $10,000 of common stock. Each of the four state pools was allotted an equal share of the common stock.

During the season of 1926 a sales office was maintained at Kansas City, Missouri, and terminal elevator storage was secured at Kansas City and Leavenworth. Wheat was sold directly to mills wherever possible. Farmers received 2 cents a month for farm storage during July and August, 1½ cents for September and October, and 1 cent for November, or a total of 8 cents to December 1, at which date credit for farm storage ended.

Growth of Wheat Pooling in the United States.—"During the year 1926–27, according to the Department of Agriculture, the various wheat pools in the United States handled 17,500,000 bushels of wheat. The maximum was reached in 1924–25, when the pools handled 27,900,000 bushels, as shown in the following table: [2]

TABLE III

VOLUME OF WHEAT HANDLED BY WHEAT POOLS IN THE UNITED STATES, 1920–21 to 1926–27

Year	Bushels Handled	Year	Bushels Handled
1920–21	1,000,000	1924–25	27,900,000
1921–22	11,400,000	1925–26	16,800,000
1922–23	21,900,000	1926–27	17,500,000
1923–24	27,100,000		

[2] Daggit, E. M. The Cooperative Marketing Journal, October, 1927.

"The wheat cooperatives cover practically all regions in the United States where wheat is grown in any quantity. The volume handled by each of the various associations during the crop year 1926–27 is given in the following table:[2]

TABLE IV

Names of Pools	Bushels
Kansas Cooperative Wheat Marketing Association	4,055,243
Nebraska Wheat Growers' Association	818,292
Central States Soft Wheat Growers' Association	4,177,452
Oklahoma Wheat Growers' Association	2,436,899
Colorado Wheat Growers' Association	400,000
North Dakota Wheat Growers' Association	1,300,000*
South Dakota Wheat Growers' Association	123,210*
Texas Wheat Growers' Association	3,384,250
Minnesota Wheat Growers' Cooperative Marketing Association	797,762

* Crop Failure.

The State Pool and Freight Costs.—Freight charges and the market to which the wheat is shipped sometimes make it difficult to establish a basic price and give justice to everyone. In Kansas, for example, wheat may move south to gulf ports, east to Kansas City, or west to Denver. Upon which market shall the price paid any farmer be based?

In some Kansas milling centers in 1925 the local price for wheat was the Kansas City price plus freight and handling charges instead of the Kansas City price less freight and handling charges. The crop was short locally and millers needed the wheat. "If wheat is sold in several different markets to which shippers have different rate relations, one market being better for one shipper and another market better for another shipper, and there is no one market that governs the price in other markets, it is impossible to figure any average price that will be fair to all members of a state-wide pool."[3]

It is possible to substitute regional pools for the state pool. Each region includes the territory that is tributary to some one market. The boundary lines of such regions would shift from year to year and sometimes would shift during the marketing of a single crop. The men in charge of establishing the basic price for each shipping point would not have an enviable job.

[3] Hammatt, Theo. D., Formerly Assistant Secretary, Kansas State Board of

Comparative Wheat-marketing Costs.—Conflicting reports have been circulated regarding the results secured by the pools. The friends of pooling say that prices have been enhanced. Men opposed to pooling maintain that the major part of the cost of operating a pool is an unnecessary expense that must be borne by the grower. Unfortunately, statistics are not available which make it possible to give an exact comparison of pool and non-pool costs. At the best only approximations can be presented.

Ordinarily all grain that is shipped by rail is handled through a local elevator. Probably the most extensive study of country elevator costs was made by the Federal Trade Commission for the crop years 1912–16. Their findings were as follows:

TABLE V

Margins Taken on No. 1 Northern Wheat for the Five Crop Years, 1912 to 1916 *

Type of Elevator	Margin
Line elevators	5.91 cents per bushel
Farmers' elevators	6.13 cents per bushel
Mill elevators	6.65 cents per bushel
Independent elevators	7.61 cents per bushel

* Report of the Federal Trade Commission "The Grain Trade," Vol. 1, p. 192.

The United States Department of Agriculture received exact records from 54 farmer-owned elevator companies in Minnesota, North Dakota and Montana for the year July, 1925–June, 1926. The most common expense of handling grain was from 4 to 6 cents per bushel. The average cost for the 54 elevators was 5.01 cents per bushel.[4]

The cost of handling grain by country elevators of any type varies quite widely within the group, depending upon volume of business, labor, costs, and other factors. It seems reasonable to believe, however, that a pool will not be able to reduce the cost of handling grain through a country elevator below the average cost of efficiently operated cooperative companies that handle a comparable volume of business.

[4] Kuhrt, W. J. A Study of Farmer Elevator Operation in the Spring Wheat Area. Series of 1925–26. Part 1, pp. 14 and 15.

The Federal Trade Commission found the average price spread of terminal middlemen between grain purchased and grain sold averaged 7.58 cents for the crops of 1912–16 and 6.96 cents for the 1919 crop. Terminal middlemen include brokers, commission men, and terminal elevators.

"The spread for the terminal middlemen may represent several handlings of the grain from the time it leaves the country elevator until it finds its ultimate destination in the hands of a converter, exporter, or feed dealer. The spread obtained by the terminal middlemen, therefore, practically always involves more than one handling, and for certain small portions of the grain may involve as high as five or six of them. On the average it is safe to say that grain is handled more than one and one-half times by terminal middlemen." [5]

It is impossible to state definitely that the pools as a whole have handled wheat at the terminal markets more efficiently or less efficiently than the regular grain dealers. In the first place, statistics as furnished by the pools do not always differentiate clearly the terminal marketing expense from the other pool expenses, and seldom if ever do they state what percentage of the grain is sold to a converter, exporter, or feed dealer. No statistics have been published which indicate what proportion of the total terminal marketing expense must be paid after the wheat has left the hands of the pool.

The following reports copied from Agricultural Cooperation, published by the United States Department of Agriculture, are fairly representative:

NORTH DAKOTA, 1922

	Cost per Bushel *Cents*
Interest paid banks	1.2
Elevator handling and storage	5.8
Terminal handling and storage	1.7
Farm storage	1.9
Insurance and taxes	0.2
Operating charges (administration, supervision, statistics, sales office, and reserves)	2.9
	13.7

[5] Report of the Federal Trade Commission. The Grain Trade, Vol. IV, p. 80.

South Dakota, 1923

Direct Charges	*Cents per Bushel*	
Terminal charges	.4	
Farm storage, elevator handling and storage	7.8	
Interest and insurance	1.5	9.7
Operating Charges		
Administrative expense	.8	
Office upkeep	.8	
Upkeep Minneapolis and Duluth sales offices	.9	
American Wheat Growers' Associated, office expenses	.6	3.1
Reserve fund		1.0
Total		13.8

Nebraska, 1925–26

	Cost per Bushel *Cents*
Terminal storage	1.68
Marketing and administrative expense	4.25
Interest	1.24
Reserve for contingencies	3.14
Farm storage	2.23
Protein premiums	2.12
	14.66

The average cost of handling pooled grain, as given in eighteen reports printed in *Agricultural Cooperation*, was 13.52 cents, which differs but little from the combined cooperative elevator and terminal market costs found by the Federal Trade Commission. Some of the cooperative elevators returned a part of the handling margin to their members as patronage dividends. On the other hand, some of the pools included farm storage as a cost, although the farmer may have held his own wheat in his own bin for several months before delivery. As has been previously stated, it is impossible to estimate what percentage of the terminal marketing costs was included in the pool costs. Some wheat was sold directly to converters or exporters. On the other hand, no small amount of the wheat was sold to regular buyers at the terminal market, and the costs given included no part of the usual terminal market costs. The Federal Trade Commission in an investigation which covered only one wheat pool and three competitors of the pool for two years found that the operating expenses

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Direct Charges	*Cents per Bushel*	
Terminal charges	.4	
Farm storage, elevator handling and storage	7.8	
Interest and insurance	1.5	9.7
Operating Charges		
Administrative expense	.8	
Office upkeep	.8	
Upkeep Minneapolis and Duluth sales offices	.9	
American Wheat Growers' Associated, office expenses	.6	3.1
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of the pool were higher than the operating expenses of its competitors. The pool received a higher price for the 1924 crop than did the three competitors but returned a lower price to the growers. The average price received for the 1925 crop was the same for the pool as for its competitors, but the competitors returned several cents more per bushel to the producers because of their lower operating cost.

It must be admitted that information is not available to indicate that the wheat pools of the United States, up to the end of 1927, had made any material savings to their members in the costs of handling grain between the producer and the consumer. The truth is that the business of the pools from 1920 to 1927 was too small to admit of low-cost operation. In no one of these years did the pools handle as much as 4 per cent of our total wheat crop.

Pool and Non-pool Returns.—The fact that the costs of marketing pooled wheat have apparently been no less and have possibly been greater than the cost of marketing non-pooled wheat is not proof positive that the members of the pool have received less for their wheat. It has been claimed that the pools have sold their wheat at a higher price and therefore have been able to pay better net returns to their members than non-members have received.

Unfortunately, there is little evidence concerning the average price actually received by the farmers in any given locality for any given grade of wheat. The secretary of the Farmers' Cooperative Grain Dealers' Association of Kansas compiled records furnished him by cooperative elevators for 1922. According to his records the average price paid for wheat by these elevators for the one year was 9.47 cents higher than the price which was paid for pooled wheat.[6] In some other season the pools may have secured more satisfactory results. For example, if the pools held any considerable amount of wheat of either the 1924 or 1925 crops until midwinter they naturally secured for their members an increase over the price for which wheat sold earlier, because in both these years there was an unusual rise in price. As a matter of course, the farmer who speculated in wheat in either of these years to the extent of holding his own crop on his own farm secured an increase in price over the average price for the year.

The wheat pools of the middle-western states have had no apparent effect upon either the general price level or the local price in the territory where they operate. They control too small a part of the crop.

There has been some contract breaking by members who believed

[6] Lawrence, R. E. American Cooperative Manager, Vol. 8, No. 16, p. 10.

their non-member neighbors were securing better net returns. The membership contracts have been sustained by the courts. This should discourage future contract breaking.

A Local Wheat Pool.—A local wheat pool would undoubtedly prove less difficult than a state-wide pool in so far as grades and freight rates are concerned. Each member of the local pool would receive the average net price for all wheat of the grade that he contributes which is sold during the year. All members would be equal irrespective of market knowledge or financial ability. On the other hand, the managers of a local pool would face a somewhat difficult situation. Suppose, for example, that in 1920 some of the members of such a pool had wished to market wheat when it was $2.50 per bushel, and others had advocated holding for $3. The wheat may have been marketed at prices varying all the way from $2.50 in July, 1920, to $1 the following spring, the average price for all being perhaps $1.75. It is very certain that the men who believed the market price would fall and delivered their wheat when it was $2.50 per bushel would feel far from satisfied with the average price for which all the wheat sold. The same rule would apply if some of the members were anxious to hold their wheat, and the price of wheat should rise very rapidly as it did in the spring of 1909 and again in 1917.

It is a well-known fact that wheat is usually higher during the last half of July than it is in September and October when a much larger volume of wheat is coming to market. Because of this, many farmers in Kansas and Nebraska who live near a shipping point plan their work so that they can thresh their wheat just as soon as it is dry enough and in that way receive on the average a higher price than would be possible two or three months later. On the other hand, men who live several miles from a shipping point cannot sell on the early market. Their grain is usually placed in a granary at threshing time and hauled to market when other work is not pressing. The man living near the market has paid a higher price for his land because of this advantage. Should he be urged to give up the advantage which he paid money to secure?

We might also compare two neighbors who live at an equal distance from a nearby market. One man is a hustler who cuts and shocks his grain in good condition and arranges with a thresherman to start the season's run on his farm. He works hard in order that his wheat may go to market before the usual price decline. The advantage secured amounts on the average to only 2 or 3 cents per

bushel, but is nevertheless worth while. The slower-moving neighbor pastures his wheat until a little late in the spring and thus retards its maturing. It will not be ripe enough to harvest or dry enough to thresh until a little later than the wheat that had better care. Shall the more energetic man lose the advantage that he worked to gain?

Local Elevator Has All Advantages of a Short-time Local Pool.—The plan of marketing followed by nearly all cooperative elevators includes the advantages of a short-time local pool. The elevator manager pays the price for which grain is selling less transportation and handling charges, including, of course, in these handling charges the margin taken by the elevator company. As was stated in Chapter VI, this margin should be sufficient not only to cover the ordinary operating cost of the elevator, but also to care for the occasional losses which any company may suffer. Two cents per bushel is usually sufficient additional margin over actual expense. If no losses do occur during the year, this margin is returned to the members at the end of the year as a patronage dividend. The wheat delivered to the elevator by a dozen different farmers may be dumped together if it is of a uniform grade, and may go in the same car to market. The men receive the same price, based upon what such wheat is selling for at the terminal market.

A National Wheat Pool.—Nearly all advocates of wheat pooling believe that a national wheat pool would be much more satisfactory than either a local or state pool, and a few have suggested the desirability of an international wheat pool. Various arguments have been advanced in favor of the national pool, but it will be possible to discuss only two or three of the most important. Probably the most spectacular argument offered is that a national wheat pool, coupled with a high tariff on wheat, would enable the farmer to obtain more for his wheat by increasing the price to the American consumer. In other words, the pool would enable the wheat grower to place a monopoly price on his product. In order to discuss this argument it is necessary to present some facts concerning our wheat production.

Our Wheat Production and Exports.—The United States is one of the great wheat-export nations. For the fourteen-year period, 1913–26, we exported an annual average of approximately 230 million bushels, which was nearly 28 per cent of our total wheat production. These exports were abnormally large because of the war, but of the sixty crops grown from 1867 to 1926, inclusive, there were only two of which we exported less than 10 per cent. In the half century

preceding 1928 there were but ten years when less than 19 per cent of our crop was exported.

The wheat which we export is sold in the markets of the world in competition with wheat grown in Canada, Argentina, Australia, and other wheat-surplus countries. Generally speaking, the price paid for cash wheat at Chicago is the Liverpool price less cost of transportation and handling charges. World supply and world demand cannot be ignored in any discussion of wheat marketing.

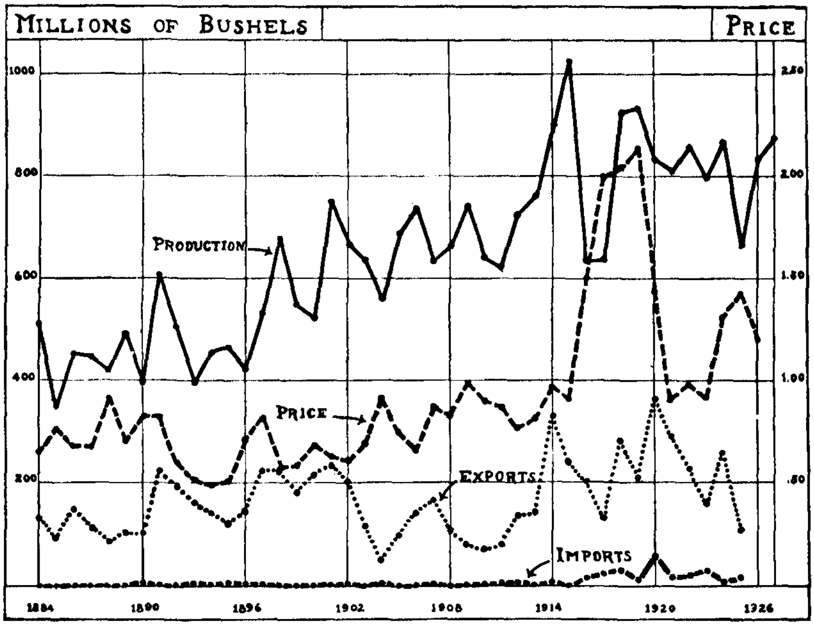

FIG. 2.—Wheat Production and Price, Exports and Imports.

The heavy line represents the annual production of wheat in the United States, 1884 to 1927; the broken line represents the average farm price, December 1 of each year; the dotted line represents yearly exports, and dot-dash line represents yearly imports. Data from Yearbooks, U. S. D. A.

Figure 2 shows the annual production of wheat from 1884 to 1927 inclusive, the average farm price of wheat on December 1 of each year, and the annual imports and exports of wheat.[7] Wheat production has increased with the development of the country so that we have not only produced enough for our own use but have had each year a surplus for export. The price of wheat declined following the Civil War, the low point being reached in the period of financial

[7] Yearbooks, U. S. D. A., 1926–1927.

depression in the middle nineties. Increased efficiency of production has aided in keeping wheat prices low during the years when the general price level was rising because of the increase in our circulating media and other factors. The price rose during the World War, but not as high as it would have risen had not the ordinary price-determining forces been overridden by Government regulation.

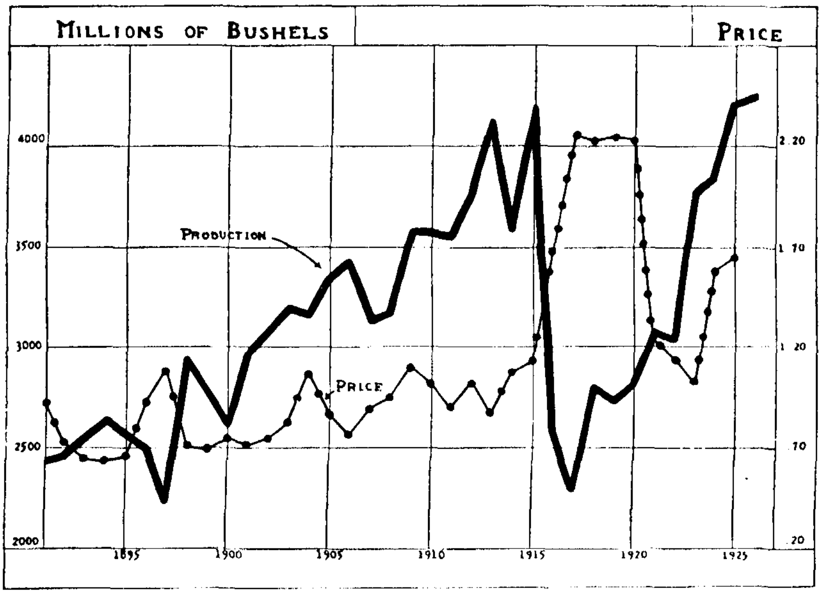

FIG. 3.—World Wheat Production and Prices.

The heavy line represents the world wheat production, 1891 to 1926, inclusive, and the dotted line represents the average Chicago price for No. 2 Red Winter wheat (1891–1900, inclusive—December high price on No. 1 Northern). Data from Yearbooks, U. S. D. A., 1911, 1923, and 1926.

Figure 3 gives the world wheat production and price from 1891 to 1926 inclusive.[8] Without exception, a decreased production is accompanied by a price rise, the most marked example being the years 1916–20. Whenever Russian production reaches a pre-war level we may expect even lower prices for wheat until the acreage of wheat in the United States and other countries now shipping wheat to Europe is reduced because of the crop's failing to pay cost of production.

It is generally admitted that the Liverpool price of wheat is largely, if not entirely, a supply and demand price. This must be

[8] Yearbooks, U. S. D. A., 1911, 1923, and 1926.

conceded even by those who believe that the price is influenced by speculation. If this is true, how is it possible for American growers to set a monopoly price, even though every bushel that we grow is placed in a national pool? We cannot dominate the world market. The culture of wheat is too widely distributed.

The Pool as a Monopoly.—One method which has been suggested is to utilize the tariff on wheat and a national pool to compel the American consumer to pay a higher price. It is argued that with compulsory pooling and the marketing of all wheat through a single organization it would be possible to "dump" our surplus on the foreign market and sell the remainder for home consumption at a price just below the cost of imported wheat. The present tariff (1928), for example, is 42 cents per bushel. The American consumer could therefore be charged perhaps 40 cents more per bushel than if there were no tariff and no pool. The Canadian or Argentine exporter sends no wheat to the United States unless he can pay the tariff and receive in addition as much as he would receive at Liverpool.

Let us suppose that three-fourths of our wheat is needed for home consumption and that the other one-fourth can be sold for export. The advocates of the plan under discussion claim that if the world price of wheat were at a level that permitted the Farmers' Coöperative Elevator to pay Farmer Jones 90 cents per bushel for his wheat, under their plan his receipts for 1200 bushels would be as follows:

300 bushels dumped on world market @ $.90	$ 270.00
900 bushels for home consumption @ $1.30	1170.00
Total Receipts	$1440.00

Average price per bushel, $1.20.

This would certainly be better for the farmer than if he received only 90 cents per bushel for his entire crop. Furthermore, in adopting this plan the farmers would only be following the reputed practice of many manufacturing companies. If it is right for American manufacturers to "dump" surplus watches and sewing machines in foreign countries, and sell the remainder of their output to Americans at a high price, then the American farmers could certainly not be censured for "dumping" their surplus wheat abroad and charging a high price for the portion sold to home folks. Should the farmer attempt to follow the lead set by monopoly or should he use his influence to curb monopoly? Which is the long-time policy?

The buying public is usually more concerned over the price paid

for necessities than over the price of luxuries. The man who objects strenuously to an increase of a cent in the price of a quart of milk or a loaf of bread is oftentimes a man who will fill his gasoline tank for a hundred-mile drive with but little thought of the cost.

When England encouraged the home production of wheat by means of a protective tariff, she faced bread riots and other disturbances. The tariff was repealed and wheat culture declined. The English farmer could not compete with the farmer of the New World. Only the effectiveness of the British navy kept England and Ireland from starvation during the World War, but Great Britain has not yet decided to protect her farmers by placing a tariff on wheat. The wheat growers form too small a part of her total population.

More than 71 per cent of the wheat produced in the United States during the five-year period, 1923–27 inclusive, was raised in eleven states which had in 1920 but 25.4 per cent of our population. The farm population comprised but 38.38 per cent of the total population of these eleven states, and was in the majority in only three states. About one-third of our population lives east of the State of Ohio and north of the Potomac River, but in this area only one-fourteenth of our wheat is produced. New York City alone boasts nearly as many inhabitants as the combined population of the two Dakotas, Nebraska, Kansas, and Oklahoma. The inhabitants of the industrial centers, employers and employees alike, have a greater interest in cheap bread than in farm profits.

In the making and maintaining of tariff schedules, votes are essential. If a high tariff on wheat is used to maintain a monopoly price, how long will it be retained? The man who believes that the industrial interests, always well organized, would permit the maintaining of a tariff that would increase the price of flour is indeed an optimist. The widely heralded plan of a national wheat pool backed by a tariff wall rests upon too flimsy a foundation to merit the serious consideration of practical farmers. Such a policy is less likely to succeed with the "staff of life" than with walnuts, raisins, and lemons.

Wheat can be grown successfully on a very large acreage of land in the United States. A material increase in price would be followed almost automatically by a large increase in production. Even if all the men who are raising wheat in the more important wheat-producing areas should join a national pool, they would have no assurance that wheat production would remain within their control. Wheat could and undoubtedly would be grown by non-members, and would

be sold to buyers. The members of the pool would have to bear the loss on the increased exports. The production of wheat is not easily subject to monopoly control.

The Wheat Pool as a Stabilizer of Prices.—The majority of men who advocate a national wheat pool believe that it would stabilize wheat prices. They argue that if a single organization controlled the sale of the major portion of the American crop it could be marketed as the needs of millers and exporters demand instead of being "dumped" on the market in the months immediately following harvest. In other words, orderly marketing would replace the individual marketing which we have at the present time.

One of the best-known advocates of the pooling of farm products writes as follows:

"If the wheat growers were organized so that they could dominate the merchandising pool of American wheat alone, it would be the largest single factor in stabilizing the wheat prices of the world.

"If, in addition, American wheat growers would create a joint agency for the sale of the exportable surplus, together with Canada and Australia, and perhaps Argentina, there would be unquestionable stabilization of the world wheat price, and both the farmer and the consumer would be saved from the wheat speculators in Liverpool and Chicago.

"I firmly believe that there will be international cooperative associations organized for the purpose of the joint sale of the exportable surplus." [9]

As has already been shown (Figs. 2 and 3), world supply seems to be one of the chief factors affecting the price of wheat at Chicago and other terminal markets in the United States. The Federal Trade Commission found that the severe decline in wheat prices in 1920 and the low prices in 1921 and 1922 were chiefly due to large crops, general business depression, unfavorable exchange rates, and limited purchasing power in foreign markets, rather than to market manipulation and speculation as has been sometimes charged. The regulation of the flow of wheat to market is, however, an entirely different factor.

The monthly marketing of wheat in the United States and the Chicago price per bushel for the years 1918 to 1927, inclusive, are shown in Fig. 4. The amount of wheat marketed during the different months of the years varies widely, ordinarily being largest in July, August, September, and October, and smallest in April, May, and June. In the five-year period, July, 1922, to June, 1926, 62½ per cent of the wheat was marketed in the four months following harvest.

[9] Sapiro, Aaron. Farm and Fireside, Vol. 47, No. 6.

The price of wheat at a terminal market varies from day to day and from month to month. It is based primarily upon world supply and world demand, but is influenced by many other factors. With but few exceptions, during the years studied the price was lowest during the late summer and autumn when the new crop was coming to market, and highest in late spring and early summer when the available supply of American wheat had been held in storage for nearly a year. The records of the Chicago Board of Trade do not indicate that the volume of wheat coming to market upon any one day or during any one week has any very direct connection with

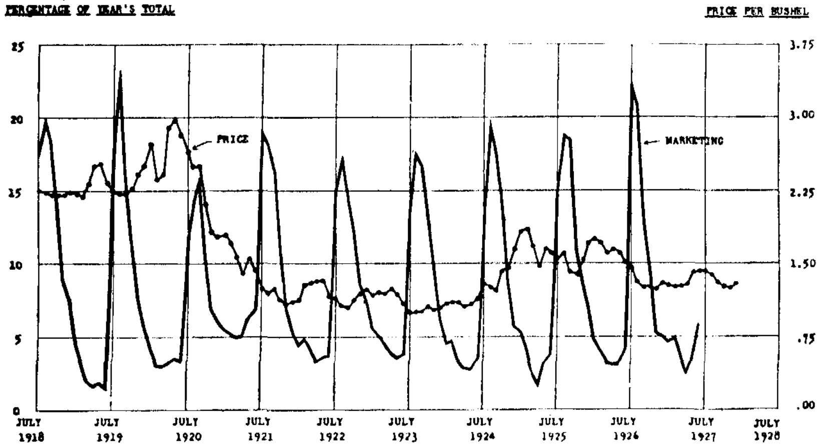

FIG. 4.—Monthly Marketings and Prices of Wheat.

The heavy line represents the monthly marketings * of wheat by the farmers. The dotted line represents the weighted average price per bushel of all classes and grades at Chicago. Data from Yearbook, U. S. D. A., 1927.

* Percentage of year's total.

price. Buyers are more interested in the total amount of wheat produced in the United States and the remainder of the world than in the number of cars of wheat that happen to reach the terminal markets upon any one day.

The seasonal variation in the price of wheat is much smaller than *the seasonal variation in the amount marketed. Evidently there must* be some reason why so many producers will each year hurry their wheat to market immediately after threshing although the price at that time is almost invariably lower than it is later in the year. Is it because necessity compels them to dump their product, or may there possibly be some other reasons? There should also be some explana-

tion of the fact that the wide variations in the amount of grain marketed do not cause a much greater variation in price.

There are several advantages in hauling wheat or oats from the threshing machine directly to market. The cost of storage, insurance, and extra handling are saved, and loss from shrinkage is eliminated. Even when the farmer has a granary permitting home storage he must consider taxes, extra handling, and possible loss from the weevil and other causes. The sale of grain often permits the farmer to pay loans, thus saving the interest on borrowed capital, or permits him to invest in time deposits or other interest-bearing securities. If the net value accruing from these advantages of early marketing equal or approximately equal the value added to the grain by holding we may expect farmers who live near a market to continue to sell their surplus wheat at the earliest opportunity.

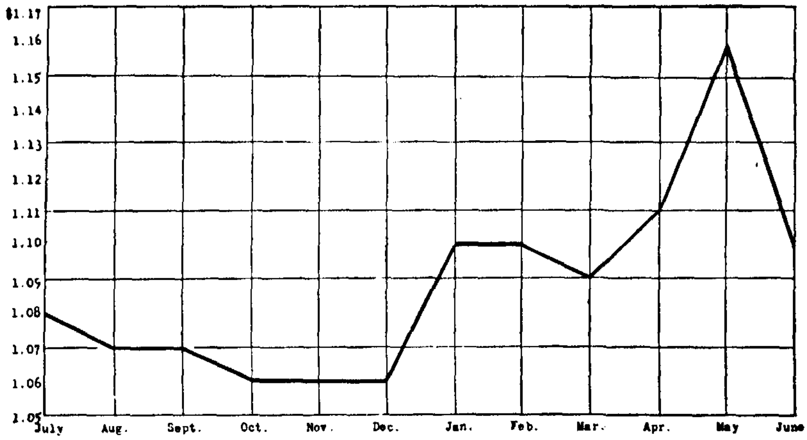

FIG. 5.—Wheat: Average Monthly Prices, 1880 to 1927, inclusive.

Figure 5 shows the average monthly prices paid for cash wheat at Chicago for forty-eight crop years, July, 1880, to June 30, 1927.[10] The average spread in price was but 10 cents. This is less than the cost of holding wheat for ten months in a public warehouse.

It is interesting to study not only the average monthly price of wheat but also the price changes from month to month in recent years.

[10] Chicago Board of Trade. Yearbooks, 1900 and 1927.

TABLE VI

WHEAT: WEIGHTED AVERAGE PRICE PER BUSHEL OF REPORTED CASH SALES, NO. 2 RED WINTER

Chicago, July, 1899 to June, 1927 *

Year	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
1899–1900	$0.72	$0.72	$0.71	$0.72	$0.69	......	$0.67	$0.69	$0.69	$0.70	$0.70	$0.75
1900–1901	.77	.77	.76	.77	.74	$0.74	.76	.75	.75	.75	.74	.72
1901–1902	.68	.71	.70	.72	.75	.82	.85	.83	.82	.82	.81	.79
1902–1903	.73	.71	.81	.82	.76	.75	.75	.76	.74	.78	.78	.80
1903–1904	.78	.82	.82	.82	.84	.88	.94	1.04	1.03	1.05	1.07	1.05
1904–1905	.97	1.01	1.10	1.19	1.16	......	1.20	......	1.15	1.07	.92	1.04
1905–1906	.90	.85	.85	.88	.87	......	.88	.84	.82	.87	.89	.86
1906–1907	.78	.73	.72	.74	.74	.74	.74	.76	.77	.79	.93	.95
1907–1908	.92	.87	.97	1.01	.95	.99	1.01	.94	.98	.95	1.03	.92
1908–1909	.92	.96	1.00	1.01	1.05	1.05	1.07	1.20	1.22	1.33	1.48	1.60
1909–1910	1.10	1.04	1.07	1.20	1.18	1.25	1.26	1.23	1.18	1.11	1.11	1.01
1910–1911	1.07	1.02	.99	.96	.93	.94	.98	.91	.90	.90	.96	.91
1911–1912	.86	.90	.93	1.00	.96	.96	.97	1.01	1.03	1.09	1.16	1.10
1912–1913	1.05	1.03	1.03	1.06	.99	.86	1.09	.99	.95	1.02	1.03	1.00
1913–1914	.87	.88	.93	.92	.92	.94	.97	.97	.95	.95	.99	.82
1914–1915	.82	.92	1.11	1.12	1.15	1.20	1.39	1.57	1.52	1.59	1.55	1.24
1915–1916	1.13	1.11	1.08	1.12	1.12	1.23	1.30	1.23	1.13	1.22	1.15	1.05
1916–1917	1.23	1.43	1.53	1.66	1.85	1.76	1.89	1.74	1.99	2.43	2.94	2.76
1917–1918	2.50	2.30	2.17	2.17	2.17	2.17	2.17	2.17	2.17	2.17	2.16	2.17
1918–1919	2.22	2.21	2.25	2.25	2.24	2.29	2.34	2.28	2.36	2.52	2.76	2.32
1919–1920	2.23	2.24	2.24	2.24	2.29	2.44	2.64	2.42	2.55	2.63	3.10	2.89
1920–1921	2.63	2.49	2.53	2.18	2.01	2.02	1.96	1.85	1.65	1.41	1.67	1.47
1921–1922	1.24	1.22	1.29	1.18	1.23	1.18	1.21	1.34	1.38	1.40	1.34	1.18
1922–1923	1.14	1.07	1.06	1.18	1.27	1.33	1.30	1.35	1.31	1.32	1.28	1.16
1923–1924	1.00	1.00	1.05	1.11	1.06	1.09	1.13	1.13	1.09	1.06	1.07	1.15
1924–1925	1.29	1.31	1.31	1.53	1.55	1.80	1.95	2.00	1.91	1.66	1.89	1.87
1925–1926	1.59	1.68	1.67	1.63	1.70	1.80	1.88	1.83	1.71	1.68	1.65	1.48
1926–1927	1.45	1.37	1.34	1.39	1.38	1.40	1.37	1.36	1.33	1.34	1.45	1.45
Average..	$1.20	$1.19	$1.22	$1.24	$1.23	$1.30	$1.31	$1.30	$1.29	$1.31	$1.37	$1.30

* Yearbooks, U. S. D. A., 1924 and 1926, p. 582 and p. 819. Crops and Markets, 1927.

The preceding table shows a much greater increase in the price of wheat from August to the following May than is indicated in Fig. 4. Have conditions changed in recent years? Conditions did change for a few years, the years of the World War. If we omit three of these abnormal years from the calculation, 1914–15 and 1916–17 when prices rose rapidly and 1920–21 when they fell abruptly, the price increase from August to May for the remaining twenty-five years was but 16 cents. From August to January the price increase was 12 cents. Increased costs of storage and handling due to the decreased purchasing power of the dollar have increased the money cost of holding wheat from threshing time until the following spring.

In only ten years of the twenty-eight-year period has the price in May been high enough to return a profit for holding wheat from the preceding August after paying interest on investment, commercial storage charges, and insurance. During two of these years the World War was in progress, and in two other years, 1918–19 and 1919–20, the market was influenced by conditions due to the war. The level of average wholesale prices rose from 99 on July 1, 1914, to 243 on June 1, 1920, so that the rise in the price of wheat at that time may be considered as a part of the general rise in prices. During a part of these years, cotton, furniture, shoes, sugar, and many other products rose more rapidly in price than did wheat. The rise in price from August, 1921, to May, 1922, and from August, 1922, to May, 1923, was due in part at least to the general revival of business which followed the acute depression beginning in the autumn of 1920.

The price of wheat rose in the spring of 1909 because of the short crops of the two preceding years, and in 1912 because of the small world surplus and the Turko-Bulgarian War. There was an unusual rise in May and June, 1907, due primarily to the damage caused by the green bug in Texas, Oklahoma, and Kansas. Similar comparisons may be made for the years that it has paid to hold wheat for the January market.

All things considered, it seems evident that many men have overemphasized the effect of the heavy sale of wheat upon the market at the time of threshing. The fact is that a large volume of wheat is needed in late summer and early autumn to supply existing market demands. Millers usually buy most heavily during the months when the supply is most abundant. This heavy buying is not entirely a question of the price of wheat at terminal markets but rests in part upon the desire of the miller to secure a supply of wheat suitable for his needs while the supply is available. The miller in the hard winter-wheat belt, for example, wishes to fill his storage space with high-protein wheat of good quality before the supply of such wheat is shipped to more distant markets. Later on, in order to get the kind of wheat he desires he may have to pay the terminal market price plus the costs of handling and transportation to his mill. The foreign demand for wheat from the United States is greater in the summer and fall than in winter and spring when wheat from Argentina and Australia is seeking a market. For the years July, 1910, to June, 1927, inclusive, the exports for August, September, and October were 68 per cent greater than in January, February, and March when the competition from Argentina is keenest. It is also generally

conceded that a part of the wheat purchased for export during our months of heavy marketing is not actually exported until later in the year.

Speculation as a Stabilizer of Price.—Speculation is doubtless as important a factor in maintaining the price of wheat at threshing time as are the heavy purchases by millers and exporters. The speculator studies the market and all factors entering into the price of wheat. If he sees indications that wheat will be high in February or May, he buys wheat in August, September, and October when it is being sent to market more rapidly than it can be consumed. This speculative demand absorbs the supply, maintains the price, and benefits the wheat producer.

Most speculators are willing to sell their purchases whenever they can realize a fair margin of profit. Sometimes they miscalculate the world supply of wheat or the probable demand, and lose money on their holdings. In other years profits may be very large because of an under-estimation of the demand, the winter-killing of wheat, or other factors. As is shown clearly in Fig. 4 the average profit in holding is not large, whether the wheat is held by the grower, miller, or speculator.

Possible Success of a National Wheat Pool.—T. N. Carver sums up the probable success of a national wheat pool as follows:

> "Are farmers, either individually or organized, in a better position to judge the course of prices than are the professional speculators? If so, they will make money year after year by studying the market and selling the wheat at just the right time. If not, they will do better to sell to the speculators, who are so numerous that there will always be somebody who will bid as high for wheat in September as the indications will justify." [11]

The average man will probably interpret Mr. Carver's last statement to mean that the man who finds it desirable to market his wheat in the summer or early autumn can sell feeling assured that because of the competition among millers, exporters, and speculators, the price the following spring will on the average be only about enough higher than the autumn price to cover the cost of holding; the man who finds it convenient to wait until spring before selling can feel fairly confident that on the average he will receive interest on the value of his wheat, cost of insurance, and some return for the use of his granary. When the farmer holds his grain it will be for con-

[11] Carver, T. N. Farm and Fireside, Vol. 47, No. 8.

venience or to secure the normal increase in value due to storage costs, and not in anticipation of a large speculative profit or of securing control of the market.

Many men are willing to believe what they would like to believe. Wishing for better conditions, they would like to believe that proposed remedies will secure results. The less knowledge they have of the plan proposed, the more apt are they to support it, because the weaknesses are not apparent.

It is, therefore, to be expected that a new marketing plan, backed by enthusiastic promoters who promise that its adoption will bring better prices and prosperity, is almost certain to secure many adherents. The proposal to pool wheat is no exception to this general rule. It has gained thousands of followers. A careful analysis of the plan and its possibilities does not indicate that there is any possibility that its adoption would secure for the wheat producers of the United States the results which have been presented to them in such glowing colors.

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CHAPTER XI

COOPERATIVE ADVENTURES IN TERMINAL GRAIN MARKETING

Following the World War there was a very rapid increase in the charges made for handling practically all kinds of commodities, including farm products. This increase was undoubtedly due in part to the increased cost of doing business, but probably in part to dealers taking advantage of the fact that competition among sellers is less keen during a period of rising prices than it is under normal conditions. Producers as a whole felt that farm products were not being handled efficiently or economically and that in consequence they were receiving too small a part of the consumer's dollar. As a result of the agitation, President Howard of the American Farm Bureau Federation called a conference to meet at Chicago July 23 and 24, 1920, to discuss grain marketing.

Two Views of Cooperative Grain Marketing.—At this conference two very different views were presented relative to the improvement of grain marketing. The representatives of the farmers' elevator companies believed that grain was being marketed at a lower proportionate cost than most other farm products but thought that a more efficient plan might be devised. They were interested primarily in such problems as the cleaning, drying, grading, and conditioning of grain at the terminal markets, the sale and shipment of grain to millers and exporters direct from the country elevators, and the handling of grain on the exchanges by farmer-owned commission firms. The taking over of such marketing functions by the farmers could not result in a large increase in the price paid the producer for a bushel of grain, but a saving of even 1 cent per bushel would amount to millions of dollars each year because of the large volume of grain marketed.

Some of the men present were apparently primarily interested in forming a plan of marketing that would give absolute control of the

wheat crop of the United States and permit it to be marketed under monopolistic conditions. The following quotations from a speech made at the conference are fairly representative of this viewpoint:

"Your average wheat crop in the United States over a period of years would be about 750,000,000 bushels; your average consumption in the United States, for milling and for seeding, is about 550,000,000 to 570,000,000 bushels. You sometimes have a surplus which either has to be exported or stored, but the mills of the United States have to grind at least 450,000,000 bushels of wheat a year in order to keep going all the time and they must keep going all the time or their overhead will eat up the profits.

"You must get control of part of that 450,000,000 bushels. You must come into the part where commerce needs you because then you can command your way all the way through. Suppose the mills have to have 450,000,000 bushels of wheat a year and suppose you men controlled, in this country, 350,000,000 bushels of wheat. That would leave, then, 400,000,000 bushels of wheat that the speculators had. Out of that some has to go for seed. Let's say that half of the seed is taken from your portion, and half of the seed is taken from theirs. That would mean they sold 350,000,000 bushels of wheat to the millers, and the millers would have to have 100,000,000 bushels from somewhere else.

"Suppose the miller refuses to deal with you. Suppose he says that he is not going to deal with the cooperative association. That is all right for September, October, or December, and the other months but suppose they come in April and they need your 100,000,000 bushels of wheat? They know, as well as you, that they will pay a premium for that wheat if they were to take the attitude of making you wait until the last, refusing to do business with you because you were cooperative.

"I am giving you an example of what we may call our minimum percentage of sign-ups. We don't work the cooperative association unless we have a minimum percentage of crops signed up so we know that the trading community has to have either all or a part of what we have. Then we know that we are going to be a factor—nobody can turn us down; then we have got to be dealt with each year as the outsiders become fewer." [1]

"You probably wouldn't be able to put over more than a five-year contract to start with. This contract would provide that the individual will sell his grains to the association; the association will get absolute title to them and then will resell them, pooling them by grade—first by variety and then by variety within variety." [2]

[1] Sapiro, Aaron. Cooperative Marketing Bulletin No. 4. American Farm Bureau Federation, p. 21.

[2] Sapiro, Aaron. Cooperative Marketing Bulletin No. 4. American Farm Bureau Federation, pp. 22 and 23.

"The Association has got to get title to the wheat—that is the main thing."[3]

"You won't start this thing unless you have 51 per cent of the wheat in the nine most important wheat states tied up under this system. When you get 51 per cent of the nine most important wheat states tied up you can go ahead and nothing can stop you."[4]

The Committee of Seventeen.—Following a two-day discussion the conference authorized the president of the American Farm Bureau Federation to appoint a committee of "not to exceed seventeen members," who should "investigate the application of cooperative principles to grain marketing" and "consider, formulate, and submit hereafter for consideration, a definite plan of organization whereby all organizations of grain producers can conduct cooperative grain marketing through one or more central organizations of grain exchanges."

The Committee of Seventeen which President Howard appointed was fairly representative of the farmers' organizations interested in grain marketing. It included men with years of experience in the organization and management of cooperative elevators, who had gained an excellent working knowledge not only of cooperation but also of grain marketing. One of the members had been interested in terminal grain marketing for many years, another was in charge of a state Bureau of Markets, and one other had gained renown as an attorney for farmers' organizations. A member of the United States Bureau of Markets sat with the committee and assisted them in gathering information but did not vote upon any question. Unfortunately, a few members of the committee had little practical grain marketing experience, and were little versed in the principles and practice of cooperation. They were hardly in a position to distinguish between things which were practical and those which were only spectacular.

The Committee of Seventeen took their job seriously. They held hearings in an effort to gain information upon grain marketing; some of the members visited the California Fruit Growers' Exchange and other cooperative enterprises of the Pacific Coast; a committee was also sent to Winnipeg to obtain first-hand information upon the United Grain Growers, Ltd.

3 Sapiro, Aaron. Cooperative Marketing Bulletin No. 4. American Farm Bureau Federation, p. 23.

4 Sapiro, Aaron. Cooperative Marketing Bulletin No. 4. American Farm Bureau Federation, p. 25.

The Ratification Conference.—The Committee of Seventeen completed their plan in the late winter of 1921 and asked the farmers of the grain-growing states to elect delegates who should meet at Chicago on April 6 to ratify their report.

The report of the committee reflected to a very large extent the views of the more conservative members who had "grown up" with the farmer elevator movement. It provided for a central sales association named the U. S. Grain Growers, Inc. Actual grain growers, or persons owning land for which they received a share of the crops as rent could become members upon the payment of a $10 membership fee and signing a contract with a local cooperative elevator company or shipping association, agreeing to deliver surplus grain not "sold for local use for seed or feed." The U. S. Grain Growers, Inc., contracted only with cooperative elevator companies or cooperative grain-shipping associations for handling grain. There were thus three important factors to be considered—the grain grower, the local elevator (or shipping association), and the central sales agency.

The plan was apparently logical. There were about 5000 farmer-owned elevators in the United States with a membership of about half a million farmers. These members already believed in the cooperative marketing of grain. They would naturally be more apt to join a national grain-marketing organization than would men who knew nothing of cooperation. The cooperative elevators would sell the grain of the members of the U. S. Grain Growers, Inc., through the central sales company. The grain of non-members could be sold through regular trade channels. If the sales company could market the grain more efficiently than could other companies, it would be reflected in the net price received by the growers. Members were free to deliver their grain for shipment at any time. An optional pooling plan was also provided, permitting the formation of local pools and also of joint pools.

The plan presented was not satisfactory to the men who believed that the success of the new organization depended upon monopoly control. They apparently felt that the savings which could be effected by handling, drying, grading, and conditioning grain, in reducing freight and handling costs through direct shipment to mill or seaport and in acting as their own sales agent at terminal markets, were small compared with the profits which might be made by a single organization controlling the major portion of the grain produced in the United States.

An amendment to the original plan was proposed, requiring all members to place one-third of their wheat in a joint pool to be disposed of at the option of the central sales agency. The friends of this amendment argued that if the central organization could secure control of a little more than our exportable surplus of wheat, it would be possible to increase the price of the wheat sold at home to the level of the tariff barrier. At that time wheat was admitted without duty, but the emergency tariff was passed a few months later.

Nearly two days were spent in debating the question of compulsory pooling. The delegates were classified as poolers and non-poolers. The real nub of the proposal was not so much a question of pooling as of the advisability of linking up monopoly with cooperation. The proposal was defeated by a vote of 61 to 38. The long discussion consumed the time and energy that should have been used in planning a constructive program. The weary delegates ratified the plan with but little further discussion, elected a board of directors to serve until the time of the first annual meeting, and departed to their several homes believing that a great forward step had been taken in the economic handling of grain.

The U. S. Grain Growers, Inc.—Unfortunately, the vote of the delegates upon compulsory pooling did not settle the real question at issue between the two factions that had struggled for supremacy in the Committee of Seventeen and in the Ratification Conference. Nearly all the members of the new board of directors had either been members of this committee or delegates to the conference. They differed radically not only upon pooling but in their conception of cooperation and the best methods of making the U. S. Grain Growers, Inc., an active force in the business world.

The members of the board who were experienced in the organization and management of farmers' elevators were quite generally agreed that a careful conservative plan should be followed. They would build their company on a solid substantial basis, slowly if necessary, but certainly with economy. Some of the other members of the board had visions of an enormous organization that would dominate the marketing of grain in the United States. One of these members in discussing how best to train solicitors is quoted as follows:

"Remember you are undertaking in this drive a business that is trying to throw together a million and a half farmers and the income on that will be $15,000,000 on membership fees alone. If the finance corporation sells its stock at $5 per hundred above par so as to cover the finance corporation expenses, we have $20,000,000 to do business

with. A few thousand dollars at this end of the game to put this thing solid is not going to matter.''[5]

In order to have a supply of trained men to teach solicitors, this enterprising director had sent telegrams to various men offering them jobs at salaries ranging from $6000 to $7500 per year. Five of the men reported for duty, to the great surprise of the majority of the members of the executive committee, who did not know that the telegrams had been sent. This school for solicitors was a failure. Ultimately two of the men accepted other work with the company at a lower salary and the others went back to their old jobs or into new employment.

A man with a good imagination who has had little practical experience in handling an important business enterprise in which his own money is invested can find many ways of disposing of a part of $15,000,000, even before any appreciable amount of the money has been received. The question of how money should be expended was one that continually rose to vex the board of directors. One of the members proposed a large advertising program, although at that time the U. S. Grain Growers, Inc., was doubtless the best advertised company in the United States:

''He repeatedly recommended an expenditure of $250,000 for this purpose (advertising). To this end he had several conferences with an advertising agency before the organization was even incorporated, with the idea apparently in mind that he would have supervision of publicity and advertising. . . . Something like $65,000 in all was expended for advertising before it was discontinued. At that time it was necessary to spend a most grilling day in order to make it plain to the advertising agency that a $250,000 expenditure had never had executive approval.''[6]

There was also almost endless discussions of office space. One proposal called for the rental of an entire building at $70,000 a year. The suggestion was even made that the infant company, in order to be prepared for rapid expansion, should purchase a twenty-two story office building in the heart of the ''Loop'' district of Chicago.

Probably the organization received more criticism because of the high salaries voted to the officers than for any other one thing. Undoubtedly, living expenses in Chicago are high, but in the minds of the farmers that did not justify a salary of $16,000 for the president, $15,000 for the treasurer, and $12,000 for the secretary. The

[5] Moser, Leo C. The Iowa Homestead, Vol. 68, No. 45, p. 9.

[6] Moser, Leo C. The Iowa Homestead, Vol. 68, No. 45, p. 9.

president and secretary both refused to accept the salaries voted, and later on, because of the insistence of the president and the severe criticism of the public, the salary scale was revised downward.

Members came in rapidly when once the organization work was well under way, but for reasons which have already been explained expenses kept well ahead of income. Money was borrowed from farm bureaus, from country elevators, and from other sources.

Practically everything done by the directors was the result of a compromise between the conservative members and those who wanted a large overhead organization and apparently felt that the question of expense was of secondary consideration. The compromises already mentioned, such as advertising, office space, and salaries, are merely typical of the questions constantly recurring, the settlement of which required almost endless discussion. No one was entirely satisfied. One group felt that the funds and the energies of the new company were being needlessly dissipated. On the other hand, the conservative group was criticized for inactivity and for delaying the progress of the new company.

The Annual Meeting of the U. S. Grain Growers, Inc.—The first annual meeting was called for March 21, 1922. Delegates were elected by Congressional districts. Each man cast one vote for each member in his district. It was but natural that conservative farmer delegates who saw the unused office space and solicitors to whom the company owed hundreds of dollars should discuss company policies and company finances. A group of these dissatisfied delegates and their friends assembled together the evening before the convention to discuss the situation and how it should be met. They called several members of the board of directors before them to furnish information relative to expenditures. They asked specific questions and insisted upon specific answers. The result of their meeting was a decision to "clean house." They were determined that the men who were responsible for what they termed "extravagant policies" should not be re-elected to membership on the board of directors.

The treasurer's report presented at this meeting showed an admitted deficit of $102,524. In addition to this, members' notes and post-dated checks for $10 each, which, at the best, must be considered doubtful assets, amounted to $141,000. Notes and other current liabilities totaled $336,080. There were, at the time of the meeting, about 50,000 members.

The farmers who controlled the annual meeting were not in a mood to compromise. They believed that the poor financial condi-

tion of the company was due to too many compromises upon vital points. They, therefore, insisted that the men who had advocated policies which they considered unwise should be dropped from the board of directors and replaced by men in whom everyone would have full confidence. They carried their point and elected a board which they believed would be careful and conservative.

Failure of the U. S. Grain Growers, Inc.—The election came nearly a year too late. News of the dissension and the financial condition of the company spread rapidly. Urged by some of the men who had lost their jobs with the organization, the majority of the creditors asked for payment of their loans as rapidly as they fell due. Prospective members hesitated because of the uncertainty of the company and, as a result, no new revenues were available. Plans for selling grain at Chicago were frustrated by action of the Chicago Board of Trade. The American Farm Bureau Federation attempted to come to the rescue of the company but was unable to do the one thing that was most essential—pay the debts incurred during the first hectic year.

Plans were perfected by the directors that would doubtless have brought success had there been capital with which to work and freedom from the annoyances of debt. Eventually all the directors who had been re-elected to the board at the first annual meeting resigned in order that board members might be selected who had not gained enemies because of their part in that stormy session. Naturally this availed nothing since it did not supply working funds. A small amount of grain was finally handled but not in sufficient volume to effect any saving to the members or secure a profit that would liquidate the debts of the company.

The farmers had expended their energies and their funds in organizing a company, only to see it placed in a precarious position because of failure to follow the conservative policies which have characterized the farmers' elevator movement. They gained complete control of the company too late to save it, because of the accumulation of debts. It is possible that the farmers who are responsible for the success of the cooperative elevator movement, and who for years looked forward to carrying grain directly to exporter or miller, only to see that effort fail, will be more careful in future attempts at terminal marketing upon a nation-wide scale. It is even more certain that they will be slower to join any organization which seeks to revolutionize grain marketing through monopoly control, rather than to secure a saving in marketing costs through economy and efficiency.

One lesson that all cooperators may learn from the unfortunate experience of the U. S. Grain Growers, Inc., is that it is impossible to compromise two different ideals and that such a compromise should not be attempted. This does not apply to minor differences where no important principle is at stake.

Another lesson is that the payment of an unduly high salary to a man does not necessarily increase the man's ability to the level of the salary. Instead it may decrease his value by giving him an exalted idea of his own ability. The laborer is worthy of his hire, and an important position demands a well-trained man. In order to obtain the services of such a man a farmers' cooperative company must pay him at least as good a salary as would be paid by other business firms. The real point is not that cooperatives should not pay high salaries, but that when they do pay high salaries they should secure high-class men. In other words, because a man calls himself a crusader and announces his readiness to be drafted to lead a new movement, no one should infer that he has either the gift of leadership or a modicum of business ability.

Another point that members of cooperative enterprises can well remember is that a board of directors is both an executive and a legislative body. The members of any company ordinarily assemble but once each year and at that meeting can usually do nothing more than express their general ideas as to the policies of the company and elect directors to carry out those policies.

Men who accept election necessarily imply that they will accept the responsibility of fulfilling the wish of the majority. If they do not do this, the members become suspicious and resentful, and the success of the company is endangered. As an illustration of this, very few members of the U. S. Grain Growers, Inc., believed in pooling. In no state was there any appreciable demand for the pooling contract. The fact is that the men who believed in pooling started to push the organization of the Wheat Growers after their defeat at the Ratification Conference. This was their right. The attempt to influence the policies of the U. S. Grain Growers, Inc., and gain control in spite of the sentiment among a majority of the men who organized the company was an entirely different matter.

The Grain Marketing Company.—Undismayed by the fate of the U. S. Grain Growers, Inc., directors and other officials of the American Farm Bureau Federation sponsored a new terminal grain-marketing company in the summer of 1924. The new organization, the Grain Marketing Company, was the most ambitious attempt that

American agriculture has so far made to enter the terminal grain markets. Three large grain-merchandising firms, the Armour Grain Company, the Rosenbaum Grain Corporation, and Rosenbaum Brothers, agreed to turn over their business and all their physical properties to the new cooperative company. The agreement provided that the properties were to be leased for a year at a rental of 8 per cent while they were being appraised and the financing of the transaction was being arranged. The terms were very favorable to the purchasing company. The vendors furnished $4,000,000 of the cash for working capital which was to be repaid within one year. Payment for the physical plant, the value of which was to be decided by appraisers, but which according to the contract could not exceed $16,407,000, was to be made gradually through a period of years.

"The vendors were entirely frank in stating their reasons for selling their properties. They were convinced that adverse legislation with which they had already had experience, as in the case of the Grain Futures Act, was being and would be enacted and that they would ultimately be driven out of the grain business by such measures, and they desired to make a profit in the sale of their property. Whatever may be said regarding the motives of these men, there was no hypocritical solicitude for the farmers on their part."[7]

The Grain Marketing Company began handling grain within ten days of the time that it came into legal existence. It had all the facilities of three large grain companies, elevators, warehouses, offices, leased wires; it had their trade connections built up through years of thoughtful business effort; it had in its employ a considerable part of the officials of the vendor companies—a group of men with successful business records. It became almost in a day the largest purchaser of cash grain in the United States.

Opposition to the Grain Marketing Company began as soon as announcement was made that it was in process of organization. It increased in intensity when the company became an important factor in the grain trade.

"If the new company succeeded the 1500 members of the Chicago Board of Trade could see slim days ahead of them.

"The McNary-Haugenites gnashed their teeth in rage. If a big business concern like this could operate what chance would there be to establish a Government marketing agency?

"Then the wheat pools, where did they come in? None of the leaders of these pools could see any nourishment for themselves in it.

[7] Mitchell, James G. The Iowa Homestead, Vol. 70, No. 31, p. 5.

"Finally to cap the climax, the other big farm organizations looked at the thing coldly. It was no child of theirs.

* * * * * *

"The enemies of the new company left no stone unturned to block its way. They called for investigation by Government agencies. They laid their case before the various State Blue Sky Commissions, and assailed the company on the grounds that it was not a true cooperative, that the management was not in farmers' hands, that it was illegal."[8]

The greatest obstacle to the success of the company was the difficulty of raising $4,000,000 within a year with which to make the initial payment. Everyone knows that capital is essential to the operation of nearly every line of business. The persons who control the capital can ordinarily control the business. The idea has been widely circulated that cooperative companies are exempt from the application of this very elementary business principle. The "non-stock non-profit" plan is sometimes thought to imply that no capital is necessary. If capital is not raised through the sale of stock it must be provided in some other way. If it is secured through loans, the men who control the loans really control the fate of the company.

The farmers were slow to buy stock in the new company. Probably most of them did not realize that success depended upon the willingness of the men who would be benefited to risk their capital. They heard the unfriendly stories circulated by the company's enemies. They remembered the unfortunate fate of the U. S. Grain Growers, Inc. Perhaps the officers relied too much upon securing loans and did not try hard enough to sell stock. It is very certain that they met opposition at every turn.

When the end of the year approached, only a small part of the $4,000,000 had been raised. The bankers called the loan secured by the vendors for working capital. With the expiration of the lease the control passed back automatically to the vendor companies. The grain producers had let slip an unparalleled opportunity for securing terminal marketing facilities.

The Grain Marketing Company handled 200,000,000 bushels of grain. It operated at a profit. It paid back every cent advanced for the purchase of stock. The vendor companies undoubtedly made less money than if they had operated independently, but they took that chance when they entered into the contract.

[8] The Country Gentleman, Vol. 90, No. 33, p. 18.

Men who believe in cooperation can learn two lessons from the experiences of the Grain Marketing Company:

1. Capital is essential in the handling of grain.
2. Farmers can succeed in doing big things only when a large number of men unite on the same program. Not everyone can delay action until he is assured that a new venture is a success.

Successful Attempts at Terminal Grain Marketing.—The Equity Cooperative Exchange of St. Paul was organized in 1908 and operated for several years. Their entry into the market increased competition, improved trade practices, and doubtless worked for the benefit of the farmers in the territory tributary to the Twin Cities. The Cooperative Exchange is no longer in operation, but its closing was due largely to internal dissension among the officials.

Other terminal grain-marketing associations include the Farmers' Union Jobbing Association, Kansas City, Missouri; the Equity Union Grain Company, Kansas City; the Farmers' Elevator Commission Company, Minneapolis, Minnesota; and the National Grain Commission Company of Omaha, Nebraska. These firms buy and sell grain on a commission basis but are not permitted to pay or set aside any patronage dividends. Each firm observes carefully the rules of the Grain Exchange with which it is connected.

Progress in Ohio.—The Ohio Farm Bureau Federation established a Grain Sales Department in July, 1923. Nearly one-hundred farmer-owned elevator companies sold grain through this agency within the first six months of its operation.

"Bids were sent daily by the Grain Marketing Department on the basis of the market and bids received from the selling connections of the agency. These bids are sent in card form daily to country elevators of Ohio, and are good for acceptance up to nine o'clock in the morning of the following market day. The grain bought on bids is then placed with buyers.

"Contracts have been established with the terminal elevators of the East, such as Buffalo, New York, Philadelphia, Baltimore, and Pittsburgh, and with many interior points and milling concerns throughout Ohio, the East, Southeast, and South. These connections have given an outlet for all grain sold to the agency.

"All purchases are made on the account of the Ohio Farm Bureau Service Company in place of handling business on a brokerage basis. This enables placing the grain in the direction which will bring the highest net return to the elevator. Under this system all trades are cleared through the Service Company, permitting the elevator to draw

draft with bill of lading attached. This guarantees to both buyer and seller the trade in all its details.

"Draft is then drawn on the buyer in the same fashion. Returns and final settlement are made upon reports of the buyer. Because of the nature of the grain business, practically all purchases and sales are made by telephone and telegraph.

"Many cars of the wheat handled have been placed at interior points. A large per cent of these shipments went through on the basis of shippers' grade which secured for them from three to five cents a bushel more than if they had been shipped to terminals. Most of the elevators that have sent a trial shipment through the Service Company have given repeat orders and as yet not one serious complaint has been received. Each week has added new firms to those listed on the books. Prices to country elevators have been well in line with competitors most of the time and many shippers have stated that they have received more for their grain through the Service Company than they could have secured in other directions." [9]

The Michigan Elevator Exchange.—On November 1, 1920, the representatives of forty-two elevators organized the Michigan Elevator Exchange, elected a board of directors and authorized them to start a sales service in elevator commodities. At the end of nine months there was a deficit of $18,000. A change in management was then made and at the end of one year the deficit was wiped out and a profit of $9000 had accumulated.

In July, 1924, 107 of the 120 farmer-owned elevators of Michigan were members of the Exchange, and marketed through it practically all of their hay, grain, and beans. The company started business with a capital of only $4600. This had increased to $60,100 in 1927. The business for the year ending June 30, 1928, totaled $9,000,000. The earnings of the company have been very satisfactory. In 1927–28 dividends of more than $50,000 were prorated and the books showed a satisfactory surplus at the end of the year.

The success of the Michigan Elevator Exchange indicates the possibilities of cooperative marketing beyond the local elevator. Certain expenses incident to the handling of grain at terminals may be eliminated when direct connections with mills and exporters can be secured. Nothing spectacular has been done. The Exchange has neither attempted to fix prices nor aimed at monopoly control. Success has followed the employment of good business methods and the elimination of certain expenses incident to "regular" grain marketing.

The men who have stood back of the cooperative grain-marketing movement may well feel encouraged by the results obtained in Ohio

[9] Ohio Farm Bureau Federation News, Vol. III, No. 23.

and Michigan. Although operations have been on a small scale, they show the possibilities of a larger movement.

After the hue and cry for "fixed prices" and market control shall have died down, and after efforts founded on plans which are not in harmony with economic laws shall have failed, practical farmers who have made possible the growth of the cooperative elevator movement will doubtless come forward and develop a plan of marketing which will carry grain from the local elevator to the consumer at a lower cost than it can be carried under the present market system.

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CHAPTER XII

COOPERATIVE GRAIN MARKETING IN CANADA

Through all the early period of the development of cooperative grain marketing in the United States, the farmers confined their attention almost entirely to the organization of local elevators. No attempt was made to enter the terminal markets.

Early Development.—In Canada cooperative marketing had its beginning at the terminal market and afterward spread out to country points. The reasons for this difference in development grew out of the difference in conditions. In the United States the first cooperative elevators were established in communities where the land had been farmed for twenty years or longer, and where there was a family living on nearly every quarter section.

> "In Canada the efforts of the grain growers to market cooperatively began while the country was still new and sparsely settled. Capital with which to erect elevators at the country points was not readily available. Most of the growers had scarcely enough capital to carry on the business of growing wheat, and in that thinly populated section a capital subscription sufficient to erect a modern grain elevator at each shipping point would have amounted to a considerable per capita cost. The wheat farms were large; farm storage was not so adequately provided as it was in Iowa, Illinois, and other middle-western states when the movement started there, and consequently the establishment of loading platforms and the possibility of shipping grain direct, without having it pass through the hands of the country dealers, seemed to the growers the most logical way out of their difficulties." [1]

The Grain Growers' Grain Company.—The pioneer cooperative company in Canada was the Grain Growers' Grain Company which began handling grain at Winnipeg in 1906. It had a seat on the Winnipeg Grain Exchange and conducted a grain commission business in much the same way as any other commission firm. It received shipments from both members and non-members. The rules of the

[1] Mehl, J. M. Cooperative Grain Marketing. U. S. D. A. Bulletin No. 937.

Winnipeg Grain Exchange, similar to the rules of grain and livestock exchanges in the United States, prohibited the payment of rebates to shippers. This rule has always been construed by the exchanges as prohibiting a cooperative company from paying patronage dividends. The Grain Growers' Grain Company followed this and all other rules of the Exchange, and carried on its business in accordance with established grain trade usages.

Despite its strict adherence to the rules of the Winnipeg Grain Exchange, the Grain Growers' Grain Company was not given a cordial welcome by the members of the Exchange. Before the new company had been in operation two months, it was suspended from the Exchange because of the charge that it intended to pay patronage dividends. This suspension prevented the sale of grain to other exchange members and limited the market in other places. Meantime the farmers were sending in wheat at the rate of about 100 carloads a week and drawing upon the company for 75 per cent of its value. At one time the company's overdraft reached $356,000. The situation was saved by the Scottish Cooperative Wholesale Society which began buying the wheat in large volume. The Government of Manitoba also brought pressure to bear upon the Winnipeg Grain Exchange to readmit the farmers' company. Influenced in part by fear of governmental action, but doubtless to a greater extent by the success of the Grain Growers' Grain Company in selling their product without membership, the Exchange readmitted them.

The next move of the organized grain interests was more clever and more dangerous. They had the Winnipeg Exchange suspend commission charges for one year. Commission firms which operated elevators could live under such conditions better than could the farmers' company which had no source of income except the commissions from the sale of grain. The farmers stood by their own company loyally in this emergency, shipping it twice as much wheat as during the first year and making it a present of the commission charge. Frustrated in this second attempt, the Exchange restored the commission rule.

The Grain Growers' Grain Company Buys Local Elevators.—The establishment of a successful commission firm at the terminal market did not end the market troubles of Canadian farmers. There remained the difficulties incident to shipping grain without a local elevator. Because of the serious emergency which existed, the Government of Manitoba entered the grain-elevator business. Like many other governmental attempts in the field of business, this enterprise

was not successful, and in 1910 the Government gladly leased the 120 elevators it then owned to the Grain Growers' Grain Company. The cooperative company succeeded where the Government had failed, and other elevators were erected or purchased as the need arose. They were paid for quite largely by selling shares of stock to the farmers tributary to the elevators. The farmers of Manitoba were thus in control of a company which owned a chain of elevators and sold grain at the terminal market. They followed the precedent established by successful grain men and found it profitable. Not only did they secure a better price for their grain but their company prospered.

The United Grain Growers, Ltd.—In 1917 the Grain Growers' Grain Company amalgamated with the Alberta Farmers' Cooperative Elevator Company under the name of the United Grain Growers, Ltd. The Alberta Company had been in successful operation since 1913 and had performed much the same service for the farmers of Alberta that the Grain Growers' Grain Company had performed for those of Manitoba. At the time of the amalgamation the Grain Growers' Grain Company had a paid-up capital and surplus of nearly $2,500,000, and the Alberta Farmers' Cooperative Company had a paid-up capital and surplus of more than $1,100,000. On August 31, 1927, the paid-up capital stock of the United Grain Growers, Ltd., was $2,979,078; the general reserve was $1,500,000; and the undivided profits were $605,988, giving a net capital of $5,085,066. There was also a depreciation reserve of $2,000,000. The authorized capital stock of the company is $5,000,000 divided into 200,000 shares of $25 each. Because of the accumulation of a large surplus which increases the actual value of the shares, the selling price is fixed at $30 per share. Membership is limited to the owners and operators of farm land and their wives, unless others are admitted by special resolution of the members. No one member may own more than 100 shares. There were about 35,000 members in 1927. The ownership is divided into locals so that each member has the opportunity of attending the meetings of the local unit of the company. At least forty members, owning not less than 267 shares of stock, are required to form a local.

"Each local elects a local board of five members, who act mainly in an advisory capacity to the general board of directors. The local also elects one delegate to represent the supporting shareholders at the general meetings of the company. Each delegate has only one vote regardless of the number of shareholders belonging to his local, but in case a local has 188 or more members it is entitled to have

two delegates. In the meetings of the locals each shareholder has only one vote and voting by proxy is not allowed either in the general meetings or in the local meetings. The affairs of the company are administered by a board of twelve directors, four of whom are elected each year to serve for a period of three years.

"The management of the company is centralized in the office at Winnipeg, but the office organization of the old Alberta Farmers' Cooperative Elevator Company is being maintained at Calgary, Alberta, as western division, and through it is administered all of the business affecting the local elevators in Alberta, while the Winnipeg office has direct contact with the elevators in Manitoba and Saskatchewan."[2]

The capacity of this elevator is 5,500,000 bushels. Its receiving capacity is 200 cars of grain per day, and its loading-out capacity is 80,000 bushels per hour.

In 1927 the United Grain Growers, Ltd., operated elevators at 368 points. It also erected a new terminal elevator at Port Arthur, Ontario, with a capacity of 5,500,000 bushels. The receiving capacity is 200 cars of grain a day, and the loading-out capacity into vessels is 80,000 bushels an hour. "It is the most modern and efficient elevator in the world."[3] Terminal elevators are also operated at Fort William and Vancouver.

"The operation of terminal elevators has, on the whole, been very profitable. Earnings on these operations have enabled the company to give better service at country elevators and better prices for street grain than would otherwise have been possible. These earnings are derived from storage, elevation, and cleaning; from improving the

[2] Mehl, J. M. Cooperative Grain Marketing. U. S. D. A. Bulletin No. 937.

[3] United Grain Growers, Ltd. Twenty One Years, 1928.

quality of low-grade grain by reconditioning and by mixing; and from averages and the sale of screenings in the operation of its public elevators."[4]

The United Grain Growers, Ltd., carries on various activities in addition to handling grain. Farm supplies, such as coal, flour, feed, twine, fencing material, oils, and greases, are handled in large volume and apparently at a very material saving to the members. A large export business is handled through two subsidiary corporations, the Grain Growers' Export Company, Ltd., of Canada, and the Grain Growers' Export Company, Inc., of New York. Other subsidiary corporations include the United Livestock Growers, Ltd., through which livestock is marketed, and the Public Press, Ltd., which publishes a semi-monthly farm paper, the Grain Growers' Guide. The United Grain Growers' Securities Company, Ltd., carries on a general fire, hail, and casualty insurance business. The United Grain Growers' Sawmills, Ltd., a subsidiary formed for furnishing lumber to the members, has not been particularly successful and its business is now being closed up. All the subsidiaries are owned by the parent company and the affairs of each are administered by the directors of the United Grain Growers, Ltd.

Relatively few cooperative organizations have been more successful than the United Grain Growers. Its membership, its volume of business, and its steadily increasing net worth are criteria that indicate its efficiency as a marketing agency and its financial success. It has never attempted to fix prices or to revolutionize the system of grain marketing. Its object has been to handle grain efficiently from the farmer's wagon to the terminal market buyer and in that way to secure for its members a larger share of the terminal market price of grain. As has been previously stated, it sells grain in the export market. Some of its enterprises, such as the handling of lumber and farm machinery, did not show a profit. The members, however, gained a business knowledge that doubtless compensated in part at least for any financial loss.

"In studying the activities of this company, it becomes evident that the members have been taken into the confidence of the officials at all times. The annual meetings have always been well attended and a complete statement of the company's activities for the year, supported by operating statements and balance sheets certified to by

[4] Booth, J. F. Cooperative Marketing of Grain in Western Canada. Technical Bulletin No. 63, U. S. D. A.

chartered accountants, has been made available. The mistakes have been presented with as much emphasis as the successes. In all cases, decisions on questions of policy and issues of major importance have originated with the members in annual convention."[5]

The Saskatchewan Cooperative Elevator Company, Ltd.—"The Saskatchewan Cooperative Elevator Co., Ltd., was formed as the direct result of recommendations made by a commission appointed by the Saskatchewan Provincial Government in 1910 to investigate and report upon the entire grain situation in western Canada. Prior to the appointment of this commission the grain growers' associations had been pressing the Provincial Government of Saskatchewan to acquire and operate as public utilities the country elevators in Saskatchewan. The recommendations of the commission were opposed to the proposition to own and operate the country elevators; instead it recommended the incorporation of a farmers' elevator company for that purpose, to be assisted by the Government in the matter of financing."[6]

The Commission recommended that capital for the proposed system be provided by the farmers who would receive the direct benefit. At any point where the producers felt the need of an elevator, they should subscribe for stock to the amount of the cost of the proposed elevator, paying 15 per cent of the subscribed capital in cash. In order that the elevators might be built only where there was an actual demand for them, it was further recommended that the shareholders should have at least 2000 acres of grain for each 10,000 bushel capacity of the proposed elevator. When these conditions were met the Government should advance 85 per cent of the subscribed capital still unpaid. This loan was payable in twenty equal annual installments with interest at 5 per cent. The legislature passed an act in the spring of 1911 embodying these recommendations. The growth of the Saskatchewan Elevator Company, Ltd., was rapid. At the end of the first year's business it had 2597 members and 46 elevators. By the end of the third year this had increased to 13,156 members and 137 elevators. On July 31, 1925, the company had 28,000 members and 433 country elevators. It also had "its own terminal elevators at the head of the Great Lakes, with a total capacity of 15,100,000 bushels; a terminal Transfer Elevator at Buffalo; and in addition Export Departments are operated at Winnipeg, New York, Vancouver, and London, England." In 1923–24 the company handled

[5] Booth, J. F. Cooperative Marketing of Grain in Western Canada. Technical Bulletin No. 63, U. S. D. A.

[6] Mehl, J. M. Cooperative Grain Marketing. U. S. D. A. Bulletin No. 937.

48,500,000 bushels of grain, and somewhat less in 1924–25 because of decreased crop yields.

The balance sheet for the year ending July 31, 1925, showed the financial condition of the company as follows:

Authorized capital	$5,000,000.00
Subscribed capital	4,964,200.00
Paid-up capital	2,396,633.00
Reserves	2,378,439.00
Loans and accrued interest due the government of Saskatchewan	2,466,800.61
Profits for 1924–25	377,871.92

An 8 per cent dividend was declared on paid-up capital stock and the remainder of the profits divided equally between the reserve account and the general profit and loss account.

Wheat Prices and Wheat Marketing during and following the World War.—Several forces combined to increase the price of wheat during the World War. One important force that influenced not only the price of wheat but that of all products was the increase in money and credits. Because of the war, the demand for bread increased, but the production of wheat decreased. A part of the wheat lands of France and Belgium were overrun by German armies. Russian crops were smaller than in pre-war years and not readily available to France and England. The shortage was not serious in the early years of the war because the United States harvested a record-breaking crop in 1914, and an even larger one in 1915. The 1915 Canadian crop was also very large. Our 1916 and 1917 crops were below the average of the ten pre-war years and the Canadian crops were considerably smaller than in 1915. The bread situation became serious in the late spring of 1917. The price of No. 2 hard winter wheat at Chicago rose from $1.79 per bushel in January to $3.25 early in May. As a result of this price increase the government in every one of the allied countries adopted measures to regulate the price of wheat. The allied governments of Europe also entered into an agreement to purchase grain and certain other supplies through a single agent and thus eliminate competitive bidding. The consumption of wheat was curtailed to some extent by lowering milling standards and requiring the use of substitutes. Had it not been for these control measures the price of wheat in Canada and the United States would doubtless have risen to $5 or more per bushel.

In our own country the United States Food Administration Grain Corporation was the dominant factor in the wheat market from September, 1917, to June 1, 1920. The 1917 and 1918 Canadian crops

were handled by a Government agency called the Board of Grain Supervisors. The 1919 crop was handled by a somewhat similar agency called the Wheat Board. Their activities ended in August, 1920.

In the United States the peak of the inflation period was reached in May, 1920. The price of wheat, however, rose in June, following the relinquishment of Government control. The 1920 world wheat crop was large. The European demand for American wheat decreased not only because of an increased European crop but also because of a shortage of cash and credit. The price of wheat fell in the United States following the harvesting of the new crop. Prices had been high for so long that many persons refused to believe that they could fall. Even after deflation was well under way a group of well-meaning men urged farmers to hold their wheat for $3 per bushel.

The top price for wheat in Canada was not reached until September, 1920. It fell very rapidly during the last three months of the year as many buyers and sellers came to realize conditions of *demand and supply*.

Many Canadian farmers believed that part if not all of the price decline was due to the method of selling. Since prices had been higher during Government control than in preceding years and started to fall very soon after Government control ceased, they argued that the price was largely dependent upon the method of sale. Government control was advocated, and in 1921, 1922, and the early months of 1923 the re-establishment of the Wheat Board was widely discussed throughout the prairie provinces. The legislatures of Saskatchewan and Alberta endorsed the plan but the legislature of Manitoba refused. The premiers of Saskatchewan and Alberta tried to obtain competent men to handle a board for the two provinces but were unsuccessful, and the plan of government control was therefore abandoned.

"The leading authorities on grain marketing, who were approached with a view to obtaining their services, were opposed to Government monopoly except under war-time conditions. The constitutionality of such an organization was seriously questioned, but, quite apart from that phase of the subject, there were many who believed that Government control could not, under normal conditions, be made a success. It was held that the success of the wheat board as a war measure could not be used as a criterion of the possibilities of such a scheme in peace times.

"During the war there had been controlled purchasing by all of the principal importing countries, as well as controlled selling by certain of the larger exporting countries. For Canada to establish

control when the rest of the world had returned to a competitive basis would have meant placing the Canadian board in an impossible situation, it was contended. It could not have maintained a price level higher than the world price established in a competitive market; and, since that price was at the time less than one-half the price which was returned by the wheat board of 1919, it appeared impossible to make a showing which by comparison with the results achieved by the former board would satisfy producers. The public in general placed too much confidence in the possibilities of Government control and expected much more than the marketing authorities believed possible of attainment.

"It was also feared by some that the importance of a wheat board and its possible influence on the economic life of Canada, particularly the west, would make it a target for political manipulation. For these and other reasons no one with the ability and experience in grain marketing necessary to handle an organization of such magnitude could be induced by the provincial premiers to undertake the task." [7]

Canadian Wheat Pools Organized.—The pooling of grain was discussed in western Canada as early as 1920. Many farmers, particularly in Alberta, were enthusiastic for pooling; others favored the entry of the Canadian Government into grain marketing; others were well satisfied with existing cooperative marketing facilities, and some men had no definite opinion in the matter. After the failure of the attempt to re-establish the wheat board in 1923 several farmer organizations of western Canada swung their support to the pool plan. Organization began in Alberta and Saskatchewan in August, and in Manitoba the following January. More than 35,000,000 bushels of wheat were pooled in Alberta that year and handled by the United Grain Growers under contract. Without the assistance of this strong company, it is not likely that the Alberta pool could have operated successfully until a much later date.

In 1924 pools were operated in Alberta, Saskatchewan, and Manitoba, the major part of the grain being handled by the two large cooperative elevator associations. Early in 1925 the question of what the permanent relations should be between the farmers' companies and the pools came up for discussion. A committee composed of representatives of the interested groups failed to find a satisfactory solution of the problem in spite of an offer from the Saskatchewan Cooperative Elevator Company and the United Grain Growers, Ltd., to handle pool grain at cost. The failure "was due to a difference of opinion between two of the pools and the two farmers' companies

[7] Booth, J. F. Cooperative Marketing of Grain in Western Canada. Technical Bulletin No. 63, U. S. D. A.

on the question of handling non-pool grain through the companies' elevators.

"The Saskatchewan and Manitoba Pools considered that all farmer-owned elevators, if they handled non-pool grain at all, should handle it for storage only and should not provide any facilities for buying and selling such grain. The Farmers' Companies considered that the use of these facilities should continue to be available for shareholders and supporters who had not yet seen fit to join one of the Pools, or who had joined the Wheat Pool, but not the Coarse Grain Pool, or *vice versa*. It was clear that any other course would compel all such farmers, even including those who had contributed their money to help to provide these facilities, to market their grain through line elevator facilities, and would deprive the farmer-owned facilities of the advantages of handling such grain."[8]

The complete story of the many conferences between the farmer-elevator companies and the pools during 1925 cannot be told here. Nearly everyone realized that two competing organizations could hardly hope to handle the grain as economically as could a single large company. The entry of the pools complicated the marketing situation because many farmers preferred cooperation without pooling to cooperation with pooling. In April, 1926, at a specially called meeting, the voting delegates of the Saskatchewan Elevator Company, Ltd., decided to accept the offer of the Saskatchewan Pool Elevators for the purchase of their properties. They were taken over August 1, 1926. Additional elevators have since been acquired in all three of the prairie provinces. The table which follows gives a fair idea of the status of the pools in 1926–27:

TABLE VII

PROVINCIAL POOL STATISTICS

Pool	Number of Members, March 15, 1927	Bushels of Wheat Handled, 1926 Crop	Number of Elevators, March, 1927
Manitoba	19,109	15,874,000	40
Saskatchewan	82,133	117,066,000	582
Alberta	38,966	43,627,000	42
Total	140,208	176,567,000	664

[8] The Record of the United Grain Growers, Ltd., on the Question of Pool Marketing, Issued by the Board of Directors, United Grain Growers, Ltd., at Annual Meeting of the company, November 19, 1925.

the grower in the form of deductions from the initial payment. Carrying charges on wheat in country elevators are paid by the associations, but the practice of showing these charges as a pool cost differs. Terminal elevator expense, transportation, and carrying charges incurred in the movement of grain from terminal elevators to eastern ports are deducted from sales returns by the central selling agency and do not appear on provincial pool expense sheets. Neither do these items appear as expenses of the central selling agency. In brief, expenses that would normally be incurred in the movement of grain, were there no pool, are not included as pool costs. Expenses shown represent additional services provided by the pool.'' [10]

Objectives of the Canadian Pools.—At the time of the organization of the pools the following objectives were mentioned:

1. To eliminate speculation in wheat (stated in preamble of contract with grower).
2. To stabilize the wheat market (stated in preamble of contract with grower).
3. To distribute the movement of wheat throughout the year.
4. To substitute a new system of grain marketing for the one then in force.
5. To secure more money for the members.

The hope of securing greater net returns was doubtless the most potent reason for organization. The other objectives mentioned may be considered merely as means, the realization of which it was believed would aid in securing the end sought. Because these objectives are mentioned frequently in connection with grain marketing in the United States they are worthy of discussion.

1. *To Eliminate Speculation.*—No one has ever explained satisfactorily just how the Canadian pools or any other marketing organization can eliminate speculation. It is, of course, true that pools do not carry a speculative risk on their own financial responsibility since they are merely intermediate agents between the growers and the buyers. The growers retain the risk until the wheat is sold and the buyers from the pool have the same risk as the buyers from any other grain company. Since the pool has control of the wheat, it is to all intents and purposes speculating with the wheat unless it either sells the wheat as rapidly as it is delivered by the growers or else hedges all wheat in its possession.

[10] Booth, J. F. Cooperative Marketing of Grain in Western Canada. Technical Bulletin No. 63, U. S. D. A.

Dr. Alonzo E. Taylor, in one of his wheat-marketing studies, discusses the possibility of a national wheat growers' marketing association avoiding speculation:

> "The association could not escape speculation, though it would be *in position to elect the form of speculation.* Even a *monopoly* could not escape speculative operation. Holding the crop for a rise, buying wheat for a rise, buying a future for a rise, and selling a future for a decline are all speculative. If the association practices hedging, it invites futures speculation by someone else to absorb the hedges; if the association does not practice hedging, it speculates in cash wheat. So long as others speculate in wheat futures and the association practices hedging, the association in effect approves futures speculation. If the association, eschewing hedging, were to market in twelve annual installments, it would speculate on the assumption that such a marketing flow would give a better return than any other rate of marketing. If the association were to market on the basis of a forecast of price trend, as has evidently been done in Canada, it would be speculating in cash wheat. There is no wool exchange, but the woolgrowers' associations, trying to anticipate price movements in order to secure the largest result for members, necessarily practice one form of speculation—namely, *holding a commodity for rise in price.*"[11]

Some persons think of grain speculation merely as the buying and selling of futures. It is, of course, true that much of our future trading is purely speculative, but it is also true that many men hedge to avoid speculation. Other men speculate in cash grain. The conservative miller who sells flour for future delivery will wish to hedge his sale by purchasing wheat for future delivery regardless of who sells him the grain. If the Canadian miller cannot hedge at Winnipeg he will doubtless hedge in some other market. Someone carries the risk of price change in wheat from the time that the grain is harvested until it enters consumption as bread.

The central selling agency of the Canadian pools has engaged in futures trading to some extent.

2. *To Stabilize the Wheat Market.*—Because wheat is a world crop, the market is subject to world-crop conditions and therefore the stabilizing influence of even the largest grain-handling concern of a single leading wheat-producing nation is bound to be limited and hard to measure. Some leading grain men are of the opinion that the Canadian pools have had a stabilizing influence. The variation in price on the Winnipeg market from week to week, from day to day, and even from hour to hour, is fairly conclusive evidence that

[11] Wheat Studies of the Food Research Institute, Vol. II, No. 3, January, 1926.

the degree of stabilization anticipated is as yet a long way from realization.

3. *To Distribute the Movement of Wheat throughout the Year.*—The pools have had no apparent influence upon the time of the delivery of grain to country elevators. Before the organization of the pools, the farmers of western Canada were accustomed to deliver the major portion of their wheat—over 70 per cent of it in some years—during the months of September, October, and November. While it is difficult to obtain comparable data concerning deliveries it is not believed that there are any apparent differences. Pool officials have stated that they have no desire to retard deliveries at country points because they "wish to get the grain into a salable position as soon as possible."

Wheat moves from Fort William and Port Arthur on Lake Superior to points east of the Great Lakes at about the same rate since the pool was organized as in pre-pool years. This movement is the natural result of geographic and climatic influences. Lake transportation is cheaper than all-rail transportation. It is therefore desirable that a very considerable part of the wheat of western Canada shall be moved to Buffalo and other ports on the eastern lakes before the close of navigation in December.

The rate at which Canadian wheat is exported has not changed materially since the advent of the pool. The fact of the matter is that the world wheat crop ordinarily moves into export in an orderly manner. The exports from every important wheat-producing country are ordinarily heaviest in the months immediately following harvest and lowest in the months immediately preceding harvest. The fact that wheat is an important export crop in countries south of the equator as well as in countries north of the equator tends to deter holding the surplus wheat of any country for the major part of a year before selling. It would be rather absurd, for example, for the United States to wait until January, February, and March before marketing the major part of its surplus, because those are months when shipments of Argentine and Australian wheat are naturally heavy. The time of harvesting home-grown wheat affects also to some extent the time of the year when the important wheat-importing nations buy most heavily of foreign-grown wheat. The importers and millers of Great Britain, France, and other European wheat-importing nations are ordinarily close students of the wheat markets and stand ready to buy a part of their yearly supply whenever the world level of wheat prices seems unduly depressed.

Notwithstanding the fact that the pool has apparently had little if any influence upon the rate at which wheat is delivered by farmers to country elevators, shipped from country elevators to western terminal markets, transported from western terminal markets to eastern points for storage, and exported to foreign countries, it has nevertheless modified to some extent the time of the year when the wheat is sold for milling, export, or storage. In other words, the pool has exercised a holding policy and has retained possession of a part of the wheat until considerably later in the season than it was formerly held in the ownership of producers or their representatives.

4. *To Substitute a New System of Grain Marketing.*—The pools have modified but have not revolutionized the Canadian system of grain marketing. The Winnipeg Exchange remains the greatest cash wheat market in the world although the volume of sales is somewhat smaller than in pre-pool years. The pool is a member of the exchange and in a position to utilize whatever advantages may accrue from such membership.

> "About 40 per cent of the grain handled during the first year of operation was sold through the exchange. Since that time direct sales to domestic mills, plus those made through branch offices and agencies, have amounted to about 75 per cent of the total grain sold by the pool. In actual practice, the central selling agency is in daily contact with its branch offices and agency connections by telegraph and cable. It is also in constant touch with the Winnipeg and other grain exchanges by means of a ticker tape, and in the case of Winnipeg through its own representatives on the grain exchange. It is, therefore, in a position either to accept telegraph or cable bids or to sell on the exchange." [12]

Although the pool does not hedge, the volume of future trading at Winnipeg remains large. The buyers of cash grain ordinarily hedge whether the grain is purchased from the pool or from some other grain dealer.

Because the pool handles so large a volume of grain, the business of many other grain firms has naturally decreased. Since the pool sells a great deal of grain directly to exporters, it is doubtless true that there are fewer intermediate transactions than formerly.

There are no present indications that the Winnipeg Grain Exchange will cease to function, or that an entirely different system of grain marketing will be substituted for the system in force. The

[12] Booth, J. F. Cooperative Marketing of Grain in Western Canada. Technical Bulletin No. 63, U. S. D. A., p. 55.

United Grain Growers, Ltd., has been in the business of marketing Canadian grain cooperatively for twenty-two years and expects to continue. The president of the company made the following statement in his annual report for the year ending August 31, 1927: "We are sure that any reasonable person who faces facts squarely cannot but come to the conclusion that the time is distant when all the grain of western Canada will be handled through the pools." So long as this strong cooperative company and private dealers continue to utilize the facilities of the Winnipeg Grain Exchange it will remain an important, open grain market. So long as it remains an open market the daily price quotations will reflect with reasonable accuracy the world supply-demand price for Canadian wheat.

5. *To Secure More Money for the Members.*—The final success of the pools will doubtless depend upon their ability to secure more money for the grain producers than they can secure from other agencies. The pools have the advantage of a large volume of business which has apparently resulted in a low overhead cost per bushel. They have also any saving that they can secure from drying, grading, and mixing grain at terminal elevators. A very considerable part of the wheat they handle is sold directly to millers and exporters and a reduction is thus effected in terminal market costs. The pool makes an advance upon grain at the time it is delivered and other advances during the year, but does not make final settlement until the pool is closed. The pool is, therefore, financed in part by the growers, and its operating expenses reduced to that extent. It is logical to suppose that this reduced interest charge should be reflected in the price paid the farmer for his wheat. Savings made from the operation of local and terminal elevators should also accrue to the producers. In addition to these savings or "profits," many pool advocates have suggested that profits can also be secured from "orderly marketing" and "merchandising" the crop.

Unfortunately, data are not available to prove that the net returns of the pool members have averaged either higher or lower than the net returns of non-members:

> "The only really satisfactory method of comparing returns to pool and non-pool farmers would be to obtain from such farmers their record of the quantities of grain sold and the returns received for this quantity. From such information a true comparison might be made. It must be admitted that the data are not available with which to make such a comparison." [13]

[13] Booth, J. F. Cooperative Grain Marketing in Western Canada. Technical Bulletin 63, U. S. D. A., p. 62.

Well-meaning friends of the pool have compared Canadian wheat prices since the pool has been in operation with prices in 1921, 1922, and 1923, and sometimes with the price of wheat in pre-war years. Such comparisons are, of course, valueless for showing the effects of the pool because many other forces have exerted a greater influence upon the price of wheat during these periods than has the system of marketing.

The all-commodity wholesale price index averaged about 50 per cent higher in 1927 than in the five-year period preceding the World War, and it is but logical to suppose that this change in price level is responsible for at least a part of the change in the price of wheat. The price of farm products as a group was low in 1921, 1922, and 1923. We are now gradually recovering from that period of depression. The world production of wheat, the production of other foods, and various other forces affecting supply and demand must be considered before saying definitely which forces were most effective in increasing the price of wheat.

Comparative Wheat Prices in Canada and the United States.—It is difficult to compare the prices paid for wheat in Canada with those paid for wheat in the United States because the Canadian grades are not the same as the Federal wheat grades used in the United States; the varieties of wheat grown are not identical, and the effect of seasonal differences upon the protein content of American wheat causes a variation in the premium paid here for wheat containing a high percentage of protein. If high-protein wheat is scarce, then wheat containing a high percentage of protein commands a high premium. If high-protein wheat is plentiful, then the premium for protein is small.

We grow five different types of wheat in the United States:

Hard Red Spring Wheat
Durum Wheat
Hard Red Winter Wheat
Soft Red Winter Wheat
White Wheat.

The wheat commonly grown in the prairie provinces of Canada is Hard Red Spring wheat. It is similar to the Hard Red Spring wheat grown in Minnesota, the Dakotas, and Montana, but there are variations from year to year in protein content and in other qualities. A comparison of American and Canadian spring wheat made by the

Food Research Institute of Stanford University reads (in part) as follows:

"As a rule, higher grades make up a larger proportion of the crop of Canadian hard spring wheat than of American hard spring wheat. Elevator-run Canadian spring wheat usually meets the grade specifications easily whereas in the case of American hard spring wheat elevator-run grain is commonly mixed so as just to make the grade.

"Apart from cleanness, high percentage of vitreous kernels, and low count of deteriorated kernels, the chief superiorities of Canadian wheat for millers lie in the heavy weight and the high protein content. On the average, Canadian hard spring wheat is several pounds heavier per volume bushel than American hard spring wheat. Hard spring wheats sold on the sample market in Minneapolis are in ordinary years rarely overweight; at Winnipeg elevator-run wheats are often, indeed in good years usually, overweight, the exact weight, however, being known. This high weight finds direct expression in a heavier yield of flour, which has the effect of making the heavier wheat cheaper for the miller. Average No. 1 Manitoba Northern will yield per 5 bushels in different years from 11 to 15 pounds more straight flour than may be secured from average No. 1 Dark Northern Spring; average No. 3 Manitoba Northern will yield about 4 to 6 pounds more straight flour per 5 bushels than average No. 1 Dark Northern. Not only are the specifications for weight consistently higher in the case of Canadian wheat, but overweight is common in Canadian wheat and uncommon in American wheat. The high-protein wheat gives stronger flour so that the net result is a larger yield of a stronger flour to the unit of wheat. For practical purposes, we may say that Manitoba Northern wheats are purchased and milled on the basis of official grades, whereas most Dark Northern wheats are purchased and milled on the basis of premiums for qualities lying outside of the grades.

"Within the official grades, year in and year out, No. 3 Manitoba Northern is comparable with average No. 1 Dark Northern, usually with a slight superiority on the side of the Canadian wheat. It is commonly heavier, has a higher percentage of vitreous kernels, is cleaner, and gives a somewhat larger outturn of comparable flour. When an American miller contemplates an importation, he first considers No. 3 Manitoba Northern as alternative to average No. 1 Dark Northern Spring.

"Roughly speaking, Canadian spring wheat runs 2 per cent higher in protein (say 14 instead of 12) than the American spring wheat, with variations from season to season. To put the matter another way, the protein content of No. 3 Manitoba Northern ordinarily runs as high as the average protein content of No. 1 Dark Northern Spring, with less variation in different samples within the grade." [14]

[14] Wheat Studies of the Food Research Institute, Stanford University, California. Vol. III, No. 1, November, 1926.

In recent years the closing price of No. 3 Manitoba at Winnipeg has ordinarily been from as little as 6 cents to as much as 10 cents below the closing price of No. 1 Manitoba. The most common variation in closing price has been about 7 or 8 cents.

Minneapolis cash prices are for wheat at Minneapolis; Winnipeg cash prices are for wheat at Fort William or Port Arthur on Lake Superior.

A comparison of the price of wheat at Minneapolis for a long period of years with the price of wheat at Winnipeg for the same period of years, for the purpose of determining the possible influence of the pool, is complicated by the fact that protein content was not an important price-determining factor until the past few years. Because of their high protein content, Canadian wheats have therefore increased in price as compared with American wheats during the years that the pool has been active.

As has been previously stated, the premium paid in the United States for protein depends upon the abundance or scarcity of high-protein wheat. If high-protein wheat is scarce the premium for protein may become so great that it becomes profitable to import Canadian wheat in spite of the tariff of 42 cents per bushel. The 1924 wheat crop of the United States was large and the supply of protein ample for our home needs. The Canadian crop for that year was small and the European millers were willing to pay a premium for Canada's exportable surplus of high-protein wheat. According to statistics published by the United States Department of Agriculture[15] the Winnipeg price for No. 1 Manitoba for the crop year 1924–25 averaged 10 cents higher than the Minneapolis price for No. 1 Northern Spring. American advocates of a wheat pool were quick to cite this price differential as conclusive proof of the effectiveness of the Canadian pool.

The next year, 1925, the United States crop was the smallest since 1917 and high-protein wheat was scarce. The Canadian crop, on the other hand, was 57 per cent larger than in 1924, and the world supply of high-protein wheat was ample. As a result the Minneapolis price of No. 1 Northern Spring averaged 10 cents per bushel higher than the Winnipeg price of No. 1 Manitoba. No evidence is available to indicate that pool activities were responsible for the price differentials of these two years.

In the spring of 1928 high-protein wheat sold in the United States for about 30 cents per bushel higher than wheat sold in Canada.

[15] Yearbook, U. S. D. A., 1926. Table 22, p. 819, and Table 23, p. 820.

in each class. . . . Wheat of these different classes and varieties usually finds its way to different and specialized markets.

"The problem is further complicated by differences in facilities for handling at country points. The Pacific Northwest handles wheat in bags to a large extent. The spring-wheat states have relatively large elevators and do considerable storing of wheat. The Southwest has small elevators which do comparatively little storing. Again, methods of selling grain are anything but uniform. These differences tend to discourage organization along national lines, although they are less of a handicap to coordination of efforts on a state or regional basis.

"The handling of farm supplies and livestock is an important part of the activity of farmers' elevators in many sections of the United States, but this custom is less common in Canada. Many local elevators in the United States are rather important business organizations, and their activities other than handling grain tend to keep them local in character.

"Canadian producers are dependent upon the export market for an outlet for the bulk of their wheat. Only a small percentage of Canadian wheat is used in Canada, and the quantity that is milled at home goes to the larger centers in the West or in eastern Canada. Very little local milling is done. In the United States the situation is somewhat different. The bulk of the wheat crop is used at home and is milled to a larger extent in places closer to the source of production. To the extent that this is true, it has encouraged in Canada the organization of large-scale associations capable of assembling and merchandising large quantities of grain, whereas in the United States conditions may have detracted somewhat from the need for such organizations." [17]

The Outlook.—The Canadian grain pools are an interesting experiment. They will be watched with interest not only by their members but also by those farmers who feel that the pool plan is less satisfactory than that used by the United Grain Growers, or that attempted by the U. S. Grain Growers, Inc.

The pool, because of its holding policy, will undoubtedly secure an increased return for its members in a year of rising prices. The returns will doubtless be lower in a year of falling prices. According to the law of averages these gains or losses due to speculative holding ought to balance over a period of years.

The life of the pool will unquestionably depend upon whether it operates more efficiently than do its competitors. Producers are interested in net returns. Whether the pool or some other coopera-

[17] Booth, J. F. Cooperative Marketing of Grain in Western Canada. Technical Bulletin No. 63, U. S. D. A., pp. 93, 94, and 95.

tive plan of terminal grain marketing will be widely used in the United States cannot be forecast accurately at the present time.

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CHAPTER XIII

THE COOPERATIVE MARKETING OF CITRUS FRUITS

The California Fruit Growers' Exchange is one of the largest and most successful cooperative organizations in America. It markets on a strictly cooperative, non-profit basis the citrus fruits produced by 11,000 grower members. It occupies a dominant position in its particular field, and has become a symbol of efficiency in cooperative marketing.

"Shipments through the Exchange during the year ended October 31, 1927, equaled 38,891 cars of oranges and grapefruit and 11,577 cars of lemons, or a total of 50,468 cars. This represented 71.5 per cent of the total shipments from the state, compared with 73.2 the year before. The percentage of the orange crop shipped is practically the same as that of last season, the reduction being on lemons. In terms of boxes Exchange shipments equaled 17,815,857½ of oranges and grapefruit and 4,450,754½ of lemons.

"Returns f.o.b. cars California to Exchange shippers during the season, estimating the value of the cars yet unsold, equaled $85,295,-840.89, the delivered value of which to the wholesale trade was $114,843,724.89. This is the largest return to California in the history of the Exchange.

"The entire California 1926–27 crop brought back to the state, based on Exchange returns, $119,663,575.30, with a delivered value of $161,282,429.57. Of the latter amount $41,618,854.27 represents freight and refrigeration.

"During the twenty-three years since the dissolution of the California Fruit Agency in 1904, returns to Exchange shippers have aggregated $817,000,000; credit losses during that period have amounted to $38,795.57, or 47/10,000 of 1 per cent of the f.o.b. returns." [1]

Few products have grown so rapidly in popularity as California citrus fruits. Forty years ago they were a luxury, obtainable even by the well-to-do during only a part of the year; to-day we consider them among our staple fruits. Their increased use seems all the more

[1] Dezell, E. G. Annual Report of the California Fruit Growers' Exchange, 1927, pp. 6 and 7.

remarkable when we consider that they are a perishable product which must be transported thousands of miles in order to reach the more important consuming centers. In order to dispose of the vast quantities now being produced, the retail price must be so low that they may be purchased freely. The question at once arises, how is it possible to sell them at a low price, pay transportation and handling charges, and leave an adequate return to the producer? The answer to this question must include the story of the development, not only of the production of citrus fruits, but of the machinery by which so large a part is marketed, the California Fruit Growers' Exchange.

Early Development of the Citrus Industry in California.—It is reported that in 1865 the infant citrus industry of California had attracted only six producers. The commercial history of the industry dates back only to about 1880, following quite closely the introduction of the Navel orange in 1873. So short is the time that "one of the parent orange trees is living at the present time and producing good fruit. From these two trees budded into seedling stock sprung the entire Navel orange acreage of California which at present is the largest single variety out of the total of the 198,000 acres of orange trees now (1923) planted."[2]

The orange growers prospered during the early eighties. They sold their fruit to speculative buyers who shipped it to the larger markets.

"California fruit in the eastern markets was then looked upon as a luxury to be indulged in only by the wealthy and the limited shipments were sold at exorbitant prices. During this period, the buyers paid good prices to the growers, and at the same time made large profits for themselves. Within a few years, however, with increased production the markets seemed to be easily oversupplied, and the former buyers refused to purchase fruit from growers, but were willing to handle it upon a commission basis, in addition to a fixed charge for packing. This arrangement relieved the shipper of all risk and insured him a profit, but placed the grower at the mercy of an uncertain market, and finally resulted in such low returns that the entire fruit industry of the state was threatened with ruin. The crisis was reached during the financial panic of 1893. For a few years previous to that date, efforts had been made by growers to devise some better method of marketing their products; and in a few places small local associations had been organized. A special impetus was given to the formation of fruit growers' cooperative marketing organizations in 1893, particularly among orange growers in the southern part of the state. The various local organizations of orange growers became

[2] California Fruit Growers' Exchange.

affiliated, and in 1895 a central organization, known as the Southern California Fruit Exchange, was incorporated. This organization has been in continuous activity since that date (though in 1905 the name was changed to California Fruit Growers' Exchange), and furnishes the facilities by means of which a large part of California's citrus fruit crop is marketed.''[3]

Organization Due to Necessity.—The action of the citrus producers of California, like the action of the farmers of the Grain Belt, was based upon necessity. In each case the grower was receiving too small a part of the consumer's dollar. The question was how to develop an efficient marketing system.

The organization opposing the citrus growers was probably less efficiently organized than the organization which opposed the farmers' elevator movement. There was less at stake, as citrus fruits were of much less value than grain. Competition among local buyers had been practically eliminated by dividing the state into districts. When the grower consigned the fruit to eastern markets at his own risk, he ran not only the risk of selling on an oversupplied market, but the risk that always attends dealings with unknown men in an unorganized distant market.

The grain exchanges of the country have long furnished a semi-public market. While it is true that only members may buy and sell, it is also true that a very large percentage of these members are engaged in buying and selling for other persons. The price at which grain sells at the important terminal markets is *news* and is published by every important daily paper in the Grain Belt. The farmer elevator company can always check its sales at the terminal market by the published market report. If a grain commission firm does not secure a price fairly representative of the market level, the shipper is not slow in transferring his business to another firm. For a few years an attempt was made to prevent the handling of cooperative elevator shipments, as was explained in Chapter V, but, generally speaking, the grain exchanges have been open markets.

It is often difficult for a shipper of fresh fruits or vegetables to determine whether or not they have sold at the prevailing market price. The product is more perishable than grain and for that reason is affected more quickly by supply and demand. Before the establishment of the auction method of selling fruit there was no established market place where buyers and sellers met and transacted

[3] Lloyd, John William. University of Illinois Studies in the Social Sciences, Volume XIII, No. 1.

business under the rules of a well-established organization. Of course, each large city had its wholesale fruit and vegetable section, but a sale was a matter which concerned only an individual buyer and an individual seller.

When a cooperative elevator company ships a carload of wheat to the terminal market, it is shipping it to what may be termed a consumers' market. Millers, exporters, and speculators compete for the wheat. The elevator receives for the wheat the price which it brings at the point of consumption, less freight and handling charges. The price which the farmers' elevator company pays its members for grain, at time of purchase and in patronage dividends, is the price for which it sells in a large consumer market, less only freight and handling charges. In the days before the organization of their own elevator companies, the farmers sold their grain for whatever was offered them by local buyers, that is, for the price at the point of production.

In the same way, when a citrus producer sold to a local buyer he received only the price paid at the point of production. If a group of men joined a cooperative association and sold to local buyers, they could receive only the price at point of production. In order to succeed in a marketing program, it is therefore necessary for citrus producers to carry their product to the point of consumption. They must receive the price paid by the jobber, less only cost of transportation and handling charges. Because there were no organized fruit markets corresponding to our grain exchanges, it was necessary for the citrus growers to send their own representatives to the large wholesale fruit distributing cities, and to establish an organization for the marketing of their products. This organization rests primarily upon about 200 local associations of growers, which have been formed into twenty-two District Exchanges. The California Fruit Growers' Exchange is the central organization. The growers receive for their product the wholesale or terminal market price, less only the necessary transportation and handling charges.

The Local Association.—The local associations are formed by the growers of a community. Each one occupies a restricted area so that the members are acquainted with each other. The average acreage of the citrus growers per association is but little more than 1000 acres. Since soil and climate vary but little, the fruit produced by the members of a local association varies less in quality than that produced over a wide area. All these local associations are controlled directly by the growers, and nearly all are operated cooperatively on

a non-profit basis. The only exception to the cooperative plan is that among the associations are a few partnerships and a few individual growers who have large acreages. Since the local associations need money for the building of packing houses and for the purchase of materials used in the preparation of fruit for market, they are necessarily capital-stock corporations.

The amount of capital contributed by each member is usually based largely on patronage. The bearing acreage, the shipments, or the number of trees of each member may be used as a base. The

Courtesy California Fruit Growers' Exchange.

FIG. 7.—Picking Oranges in California.

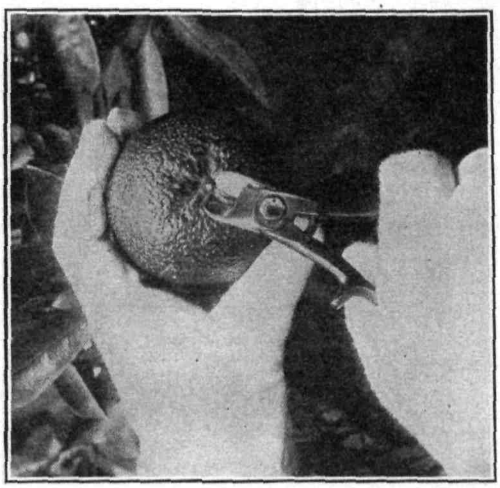
California Navel oranges are picked from November to May. A summer orange, the Valencia, is picked from May to November, so that California ships oranges to the food markets of the country every day in the year.

capital subscription is sometimes paid in advance, and sometimes by agreement is paid out of the proceeds of the sales of fruit.

G. Harold Powell, for many years manager of the California Fruit Growers' Exchange, who doubtless had more to do with the success of the cooperative movement in the Pacific Coast states than any other one man, describes the work of the local associations as follows:

"The growers usually organize as a corporation without profit under the laws of California and issue stock in proportion to the bearing acreage, to the number of boxes shipped, or in equal amount

to each grower. The association usually owns a packing-house alongside a railroad where the fruit of the members is assembled, graded, pooled, packed, and prepared for shipment, these operations being done at cost prorated on the number of boxes shipped by each grower. The associations are managed by a board of directors and a manager, and are conducted exclusively for the benefit of the growers. They accumulate no profit and declare no dividends. The fruit is generally pooled each month, or sometimes a pool includes the entire season, each grower receiving his proportion of the proceeds received for each grade handled during the pool. Occasionally the association handles the fruit of each member individually. Many of the associations pick the fruit, some of them prune and fumigate the trees for the members. The associations have brands for each grade of fruit, and when



Courtesy California Fruit Growers' Exchange.

FIG. 8.—Oranges are clipped, never pulled, from the trees. Especially designed clippers are used to prevent cutting or injuring the skin, and pickers wear white cotton gloves to prevent finger-nail scratches. A cut or scratch on the seemingly tough skin of one of these fruits means a weak spot, where decay may enter.

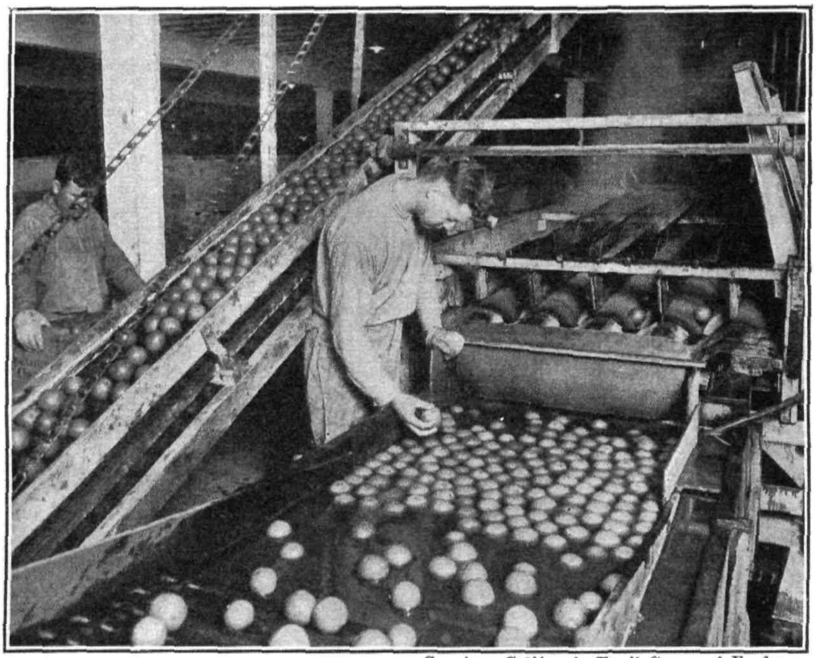
a carload is ready for shipment it is marketed in cooperation with the district exchange of which the association is a member through the agents and facilities provided by the California Fruit Growers' Exchange."[4]

The District Exchanges.—The local associations are federated into district exchanges, of which there were twenty-two in 1927. Originally these exchanges were organized as corporations without profit, having only a nominal amount of capital stock. Each association

[4] Powell, G. Harold. Cooperation in Agriculture, pp. 242–243.

usually owned one share and had one member on the board of directors. Some of the older district exchanges continue to operate under the capital-stock plan, but those being organized from time to time adopt the non-capital-stock form.

"There may be one or more district exchanges in a community depending on the number of local associations and the local conditions. The function of the district exchange is to act as a clearing



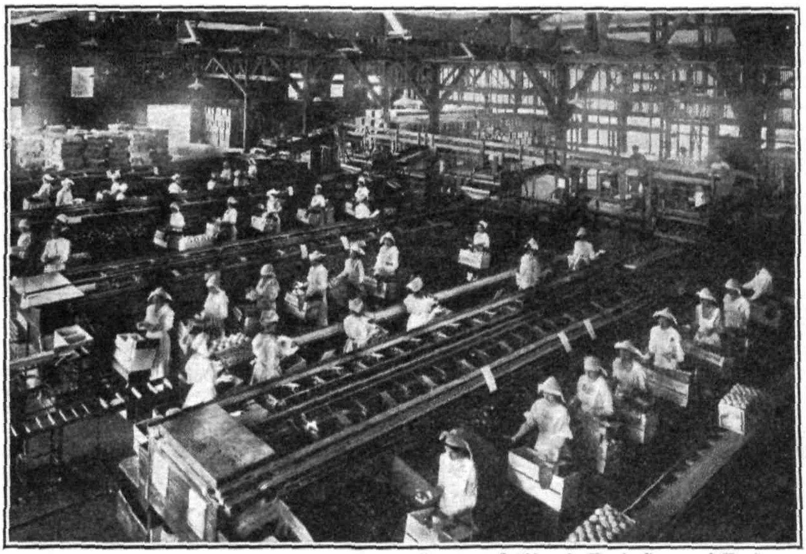
Courtesy California Fruit Growers' Exchange.

FIG. 9.—All fruit packed in California Fruit Growers' Exchange packing-houses is put through the water bath. Every day is "Saturday Night" in a citrus packing-house. The scrub is with warm water and soft brushes, the rinse is clear, cold water. After the oranges have been washed and rinsed they pass on into the dryer where currents of warm air thoroughly dry them. Literally, the bath, with its attendant incidentals, is over.

house in marketing the fruit in cooperation with the associations through the facilities provided by the California Fruit Growers' Exchange, and to act as the medium through which most of the business relations between the exchange and the local associations are handled. It is the duty of the district exchange to order cars and to see that they are placed by the railroads at the various packing houses, to keep a record of the cars shipped by each association with their destinations, to inform themselves through the California Fruit

Growers' Exchange of all phases of the citrus-marketing business, to place the information before the associations, to receive the returns for the fruit through the central exchange, and to return the proceeds to the associations." [5]

The Central Exchange.—"The California Fruit Growers' Exchange is a federation of federations. It is the clearing house formed and operated by the growers themselves, through which the producer may sell and the jobber may buy with the implicit assurance of get-



Courtesy California Fruit Growers' Exchange.

FIG. 10.—Interior of a Typical California Orange Packing-house, Showing Women Packers.

Each packer wears white cotton gloves to prevent even finger-nail scratches on the fruit skin. Each individual orange is wrapped in a tissue paper wrap before being packed in the box.

ting a square deal." In a legal sense it is a non-stock corporation organized under the laws of the State of California. Each district exchange nominates some person to act for it as its member of the exchange. The Exchange, therefore, has as many members as there are district exchanges under contract. These members elect themselves directors so that some member of each district exchange is a member of the board of directors of the California Fruit Growers' Exchange. These directors determine the general policies of the

[5] Powell, G. Harold. Cooperation in Agriculture, p. 243.

Exchange and elect a general manager, general counsel, and other employees. The only officers or employees who are members of the board of directors are the president and two vice presidents. The directors are expert producers of citrus fruits; they employ experts in their several lines, such as manager, counsel, secretary, auditor, and traffic manager. Probably this separation of the duties of directors from the duties of paid employees is one of the reasons for the success of the association.

The California Fruit Growers' Exchange neither produces nor purchases fruit and therefore never owns any fruit. It sells the fruit of the local associations, charging to each fruit owner his pro-rata share of the cost. In other words, the central exchange is a marketing organization operated without profit. It estimates as accurately as possible the amount of citrus fruits produced in the United States in any one year and plans how best to sell the fruit produced by its own members. To do this it has placed its own bonded representatives in the principal markets of the United States and Canada. The agents are carefully supervised. From them, and also from other sources information is obtained and sent out in a daily bulletin to the associations. As rapidly as fruit is sold the proceeds are remitted to the shippers through the district exchanges.

The work of the Exchange is divided among seven departments, each in charge of a specialist in his particular work. The departments are as follows: orange sales, lemon sales, traffic, legal, advertising, field, and accounting.

The Orange and Lemon Sales Departments.—"The orange sales department handles the sale of oranges, grapefruit, and tangerines. This department is in close touch at all times with the managers of the district exchanges, with the direct contract shippers, and with the salesmen and brokers who represent the Exchange in the various markets. The lemon sales department in the same way handles the sales of lemons and stands in the same relationship to the shippers and the market salesmen as does the orange sales department." [6]

The Traffic Department.—A traffic department is maintained to take care of all questions of car routing, railway rates, and claims. Through an efficient corps of inspectors, the Los Angeles office knows the location of each car of fruit from the time it is shipped until it is sold at the terminal market. It is, therefore, possible to direct any car of fruit while it is en route and send it to the most favorable

[6] McKay, A. W., and Stevens, W. M. U. S. D. A. Bulletin No. 1237, pp. 26–27.

market. As has already been stated, the Central Exchange furnishes market information to the shippers, so that they can decide intelligently where they wish each car to be sold.

One example of the work of the traffic department is their negotiations in 1923 with the railways for a rate decrease. The annual report of the general manager for that year states the result as follows:

"The new rates will be made effective December 3, 1923. The reduced rates amount to about 14 cents per box and will reduce the freight bill on the total California orange crop over $3,000,000 annually."

Claims against the railways are discussed in the 1927 report as follows: "During 1926–27 the Exchange filed 8581 claims for shippers for overcharge and loss and damage with the carriers, amounting to $276,586.27, and collected 8500 claims aggregating $217,114.50."

The Law Department.—"The law department handles the specific legal questions arising in the business relating to contracts, claims, traffic matters, federal, state and municipal laws and regulations, organization matters, trade disputes, indemnity and insurance problems, trade marks, patent rights, titles, taxes, workmen's compensation, insurance, employers' liability, and all other matters of a legal nature arising out of the varied activities of the Exchange and the Supply Company."

The law department, in addition to caring for all litigation arising from the sale of fruit, is actively engaged in promoting cooperation. The following statement was made by the general manager.

"The department confers with and assists the many individuals and groups interested in the cooperative movement who come to this Exchange for advice because of its long experience in cooperative marketing. Through the Agricultural Legislative Committee of California, in the activities of which the Exchange participates through its General Counsel, the numerous bills introduced at the state legislative session were examined and the views of agriculture on matters affecting them presented to the legislators."

The Advertising Department.—"The apparent overproduction at the time the exchange was organized was met (1) by better methods of distribution and (2) by the creation of dependable merchantable qualities in the product through the establishment of standard grades and improvement in handling practices. By 1907, annual shipments through the exchange had increased to over 6,000,000 boxes, and totaled over 10,500,000 boxes four years later. It was necessary that further steps be taken to enlarge the market for California citrus fruit.

"Advertising was begun in 1907 with an appropriation of $6000 for a newspaper campaign in Iowa. The results of this campaign were closely watched and all indications pointed to the possibility of greatly increasing consumption through advertising. An appropriation of $26,000 was made the following year, and some display material was used.

"The advertising appropriation has been increased to approximately $800,000 annually at the present time, which is about 0.8 per cent of the delivered value of the fruit. The advertising campaign has centered around the 'Sunkist' trade-mark of the exchange. Color advertisements stressing the delicious and healthful qualities of Sunkist oranges, and the varied uses of Sunkist lemons appear regularly in prominent magazines.

"All the chief mediums of advertising are employed in varying degrees, as seems best to accomplish the objectives of the exchange, (1) to increase the total consumption of oranges and lemons; (2) to stimulate a consumer and trade preference for the Sunkist brand of oranges and lemons; and (3) to reduce the cost of distribution by promoting with the trade, better displays, more rapid turnover of supplies, reasonable margins, and better merchandising generally." [7]

That this advertising campaign has succeeded is indicated by the great increase in consumption. The United States and Canada will now (1928) consume 22,000,000 boxes of California oranges in a year more readily than they would consume 10,000,000 boxes in 1907 or 2,000,000 boxes in 1893. There has also been a corresponding increase in the consumption of lemons and a much greater percentage increase in the consumption of grapefruit. The advertising department of the California Fruit Growers' Exchange has certainly secured results.

The report of the manager, E. G. Dezell, for 1923, gives the following discussion:

"With a citrus fruit supply for the American market which was the largest on record, there have existed during the past season both a maximum necessity and opportunity for advertising. A consumption of over 40,000,000 boxes of citrus fruits by the 26,000,000 families living in the United States and Canada clearly indicates that these fruits have definitely emerged from the luxury class and are taking their rightful place as staples in the diet.

"Advertising has assisted materially in bringing about this condition. Citrus fruits were esteemed, first because of their appeal to the appetite and, second because of their outstanding healthful qualities. It is the purpose of the advertising conducted by the Exchange

[7] McKay, A. W., and Stevens, W. M. Organization and Development of a Cooperative Citrus Fruit Marketing Agency. U. S. D. A. Bulletin No. 1237, pp. 28 and 29.

to broadcast facts concerning these healthful qualities and to keep constantly before the public the many and varied uses of oranges and lemons. A general appreciation of these facts is reflected in an improved consumer demand, which is the basis of marketing success.

"The buying public is not concerned with the costs of production of oranges and lemons; the price they are willing to pay for these fruits depends upon the intensity of their desire for them as compared with the numerous other products which are constantly competing for buying preference in the markets.

"Every means is taken to reach the millions of possible customers with authentic information about oranges and lemons. Approximately 46,000,000 copies of leading magazines carried a page in natural colors pointing out to their readers the usefulness and desirability of Sunkist California oranges or lemons. More than 151,000,000 copies of newspapers carried Sunkist advertising messages during the season. Posters and street-car advertising aided in disseminating the same information. News articles, photographs, and specially prepared material on the California citrus industry were constantly furnished to newspapers and magazines with the same end in view.

"The housewives who daily prepare the family menu are the best customers for oranges and lemons, and 195,000 of them indicated their active interest in these fruits by writing for Sunkist recipe books or purchasing Sunkist recipe files during the year in response to advertising offers.

"Because of the great importance of orange juice in infant feeding, special attention has been given to placing before mothers the latest development of medical research in the field of infant dietetics. Information on recipes and food values has been sent to a large number of teachers, extension workers and dietitians for use in their instruction courses.

"Next in importance to convincing the consumer of the soundness of the reasons for using more oranges and lemons, is the necessity of securing maximum interest in and attention to these fruits on the part of the 400,000 retail stores which sell them.

"Good display, reasonable margin, and rapid turnover are axioms in the merchandising of fruit, and it is around these principles that the activities of the Exchange dealer service work are centered. This phase of advertising activity was established by the Exchange in 1916, and each year, except for short-crop years, has been enlarged until at present approximately one-fourth of the advertising investment of the Exchange is expended in work with the dealers.

"The force of dealer service men this season called on 25,719 retail stores handling fruit, rendering intelligent merchandising service and disseminating practical sales advice based on careful observation and study of effective fruit-selling methods throughout the country. These men distributed Sunkist display material and personally arranged displays in two-thirds of the stores they visited. Coincident with their work in the various markets, newspaper and

poster advertising was scheduled to support the personal work, and thus gain at the same time trade and consumer interest.

"In addition to the retail dealers reached by personal visits, access was had to a much larger number through correspondence from the Los Angeles office. Circular letters, broadsides and other mail matter stressing the same principles and practices covered in the personal work are regularly sent to the leading retailers. Requests for display material and other selling aids resulting from this correspondence numbered 16,235.

"A new feature of the Exchange advertising is that built around the establishment of the 'Red Ball' brand this season as a standardized pack of the 'choice grade.' Dealer service work, supported by newspaper and street-car advertising, has been centered around this brand in the southern states, with almost instant response."

Fresh fruit drinks have become a very important channel for the marketing of citrus fruits.

"Over 7100 electrical fruit juice extractors were sold by the department of fresh fruit drinks of the Exchange at cost to fountains, hotels, restaurants, clubs and hospitals this season, bringing the total now in operation to 41,614 machines.

"Based upon a conservative estimated consumption of 50 boxes of citrus fruits per machine per year, the 41,614 Sunkist extractors now in operation represent an annual consumption of 2,080,700 boxes or 5202 (400 box) cars of citrus fruits. A box of oranges will make approximately 200 drinks, while a box of lemons will produce somewhat more. This would represent a volume of 486,467,660 drinks, with a retail sales value at 10 cents a drink of $48,646,766.

"The distribution of the Sunkist glass reamer to assist in a wider consumption of orangeade and lemonade in the home continues on a broad scale, 280,501 of the new improved type having been sold this season.

"With a full appreciation of the ever changeable marketing conditions in the American market and a realization of the increasing competition from other food products, the Exchange will extend its advertising efforts the coming year with an increased appropriation based upon 5 cents per box on oranges and grapefruit and 10 cents per box on lemons, the previous basis being 4½ cents and 7 cents, respectively." [8]

The Field Department.—A field department is maintained to take care of various problems of production. The fruit must be properly grown, well colored, free from fungous diseases, and properly picked,

[8] Dezell, E. G. Annual Report of the California Fruit Growers' Exchange, 1927, pp. 17 and 18.

graded, and packed in order that it may be sold at a remunerative price. Without an efficient corps of inspectors it would be impossible to maintain the proper grade standards.

Insect pests are a continual menace to citrus fruit production. The field department has "worked toward lessening this burden of production from insect action through accomplishing the timely and widespread adoption of the most practical and effective control measures known."

A research laboratory is maintained for the purpose of finding new uses for citrus fruits and their manufactured products. As a result of past research, a part of the fruit not satisfactory for shipment is now utilized by the Exchange Orange Products Company and the Exchange Lemon Products Company in the commercial manufacture of by-products.

The Accounting Department.—It is the desire of the Exchange that citrus fruits shall pass from producer to consumer by the best and most economical methods. In order that it may know which methods are best, the accounting department has investigated the prices and margins on citrus fruits in different cities since 1913. Information is furnished merchants concerning the sales methods and margins which actually do produce the most satisfactory results.

Fruit Growers' Supply Company.—Like many other cooperative marketing agencies which were formed primarily for the selling of some farm product, the California Fruit Growers' Exchange found difficulty in avoiding the purchase of supplies for its members. Cooperation soon teaches men to seek the advantage of quantity prices which may be secured by centralized buying. In order to give growers the desired service, and at the same time keep the Exchange a selling organization, it was found necessary in 1907 to organize an independent but closely related company, the Fruit Growers' Supply Company. Not only are needed supplies purchased, but two lumber plants have been acquired and box shook is manufactured.

During the year which ended October 31, 1927, the Fruit Growers' Supply Company transacted business amounting to $10,808,840. Purchases for members totaled $8,823,979, and the sale of the better grade of lumber from its plants contributed $1,974,861. Because of the volume of the company's purchases and its financial responsibility, manufacturers and dealers have given it very favorable recognition. Among the many products purchased, some of the more important were box shook, nails, tissue wraps, labels, fertilizer, orchard heaters, and fumigating and spraying materials.

Cost of Service.—Remarkable as are the achievements of the California Fruit Growers' Exchange in enlarging the demand for its products, in supplying that demand with an attractive standardized product, and in assisting the growers in the many details of marketing and production, perhaps even more remarkable is the low cost to the grower of these many services. From 1896 to 1913 the cost of all the services of the central exchange was from 5 to 7 cents per box. The increase in the service rendered by the association in recent years, and in the advertising appropriation, has naturally resulted in a gradual increase in expenditures. The following table gives the average cost in recent years:

TABLE IX

California Fruit Exchange Market Costs *

Season	Expenses				Deductions per Box for Advertising, Cents	
	Central Exchange, Cents	District Exchange, Cents	Total, Cents	F.o.b. Returns, Per Cent	Oranges and Grapefruit	Lemons
1919–1920	5.51	1.12	6.63	1.77	2.50	6.0
1920–1921 †	5.95	1.08	7.03	2.25	3.50	6.0
1921–1922	7.70	1.80	9.50	2.27	3.50	6.0
1922–1923	5.44	1.42	6.86	2.22	4.00	6.5
1923–1924	5.45	1.41	6.86	2.63	4.50	7.0
1924–1925	6.87	1.59	8.46	1.94	4.50	7.0

* Adapted from Agricultural Cooperation, Vol. III, No. 25, p. 499.
† Fourteen months, due to change of fiscal year from August 31 to October 31.

The efficiency of the California Fruit Growers' Exchange and its component parts becomes most apparent when its costs are compared with the costs of other steps in the distributive process. As evidenced by Table X, "the margin per box received by the wholesaler is only slightly less than the entire expense of the local association, the district exchange and the central exchange. The wholesaler's average margin for the five-year period, 1917–21, was 61 cents per box for oranges and 83 cents for lemons." [9]

[9] McKay, A. W., and Stevens, W. M. Operating Methods and Expense of Citrus Fruit Marketing Agencies. U. S. D. A. Bulletin No. 1261, p. 33.

TABLE X

Per Cent and Portion of Retail Price of Oranges and Lemons Received by Each Agency and the Price at Each Stage of the Marketing Process

5-Year Average

Portion Retained by Each Agency and Price at Each Stage, 1917–1921	Oranges				
	Grower	Packing and Exchange Service	Transportation Agencies	Wholesaler	Retailer
Portion	2.78	0.64	1.22	0.61	1.88
Price	$2.78	$3.42	$4.64	$5.25	$7.13
Per cent	39.0	9.0	17.1	8.5	26.4
			Lemons		
Portion	2.80	1.00	1.23	0.83	2.78
Price	$2.80	$3.80	$5.03	$5.86	$8.64
Per cent	32.4	11.6	14.2	9.6	32.2

"The retailers' margin is considerably greater than that of the wholesaler. For oranges it has averaged $1.88 per box for the five-year period 1917–1921 and $2.78 per box for lemons for the same period, according to data collected by the exchange. In other words, the retailer during this period received an amount equal to 67.6 per cent of the grower's net receipts for each box of oranges which he handled, and only 2 cents less than the grower as a margin for each box of lemons handled during the same period. During 1920, according to these data, the retailer of lemons received as a margin $1.22 per box more than the grower received for the fruit.

"As an average for the five-year period, 52 per cent of the total price paid for oranges by the consumer and 56 per cent of the price paid for lemons are absorbed by the transportation, wholesaling, and retailing agencies." [10]

California Citrus League.—In order to facilitate the handling of problems in the industry other than marketing, the California Fruit Growers' Exchange and other organizations engaged in the marketing of California citrus fruit have organized the California Citrus League. The traffic department of the California Fruit Growers, for example, worked through the League to secure the 1923 freight rate reduction of which mention has already been made. The present tariff on

[10] McKay, A. W., and Stevens, W. M. Operating Methods and Expense of Cooperative Citrus Fruit Marketing Agencies. U. S. D. A. Bulletin No. 1261, p. 34.

lemons may be cited as another example of the results secured by the League. When a tariff bill is being discussed the industry is ready to present evidence. The request of a single grower would carry little weight with Congress. It would be practically impossible to unite thousands of producers into an organization for the purpose of presenting information to a Congressional Committee. The organizations already in existence are in a position to take care of these problems. The League is also the agency through which statistical data upon production costs and other similar factors have been assembled.

Five Federations Handle Most of Citrus Fruits Sold Cooperatively.—Although the California Fruit Growers' Exchange holds so important a position in the marketing of citrus fruits, handling as it does approximately three-fourths of the California citrus fruit crop, it is by no means without competition, not only with firms operated for profit, but with other cooperatives in California and Florida. In 1923 it sold only about 62 per cent of the cars sold by cooperatives. The following table gives the volume of business of the various associations:

TABLE XI

COOPERATIVE SALES OF CITRUS FRUITS *

Name of Association	Cars Handled	Value Estimated
California Fruit Growers' Exchange	27,138	$48,647,800
Mutual Orange Distributors (Cal.)	5,000	8,870,000
Florida Citrus Exchange	10,572	12,062,648
Gulf Coast Citrus Exchange (Ala.)	325	443,000
Florida East Coast Growers' Association	100	177,400
Federations totals	43,135	$70,200,848
Four independent associations	485	569,455
Grand total	43,620	$70,770,303

* Bureau of Agricultural Economics, U. S. D. A., Agricultural Cooperation, Vol. 1, No. 24.

The Exchange is not Monopolistic.—The California Fruit Growers' Exchange has never attempted to create a monopoly or to fix prices. It sells fruit in a highly competitive market and makes its bid for business solely upon the value of the service rendered.

Membership in the Exchange, or in any local association, is purely voluntary. The Uniform Crop Agreement recommended by the Exchange for use by all of its affiliated associations contains the following provision: "Any of the second parties (fruit growers) to this contract may be released therefrom and terminate and end the same to him, by filing a written notice of his desire to be released, with the party of the first part, during the first fifteen (15) days of August of any year during the term of this agreement." Contracts between the central exchange and the district exchanges, and between the district exchanges and the local associations contain similar provisions.

The contract between the California Fruit Growers' Exchange and the district exchanges contains the following provision relative to freedom of sale: "It is understood, however, that each shipper reserves to itself the right to regulate and control its own shipments, to use its own judgment, and decide for itself when and in what amounts it shall ship, where its products shall be sold, and, except at auction points, the price it is willing to receive; fully reserving the right of free competition with all other members of this organization, unhampered and uncontrolled by anyone."[11] The increasing importance of the auction method of selling fruits and vegetables in the large terminal markets fits in well with the idea of free competition so tenaciously followed by the Exchange. A large fruit auction company states that 85 per cent of Florida oranges and grapefruit, 75 per cent of the oranges and grapefruit from Porto Rico, Cuba, and the Isle of Pines, and 98 per cent of California oranges and lemons in the New York market are sold at auction. Although a smaller percentage of the citrus fruits shipped to other cities is sold by this method, nevertheless the auction with its open competitive bidding does have an important influence upon price.

As has already been stated, the Exchange furnishes daily information concerning market prices and the movement of fruits. There its function ends. The local associations and district exchanges must decide for themselves as to time of shipment and place of sale. The fruit from each section must sell upon its own merits.

Pooling has sometimes been suggested as one of the essentials of cooperation. If it is, then the California Fruit Growers' Exchange can hardly be called cooperative. No attempt has ever been made to place all the oranges, or lemons, or grapefruit of a single variety and

[11] A copy of this contract and also a copy of the contract between the district exchanges and the local association is given in the Appendix.

size, produced by the Exchange members, within a single pool. The variations in the quality of the fruit due to soil, climate, and other factors are too well recognized. No pools are formed except local pools, and each of these pools covers only one grade of one variety of fruit. The local association decides the duration of each pool, which is usually thirty days. These short-time local pools do serve to equalize market risk, as was discussed in Chapter IX. The pool as used by these local associations may be better classed as a neighborly method of sharing the dangers, ever incident to a fluctuating market, than as a corner stone of cooperation.

Members of farmers' cooperative marketing associations who advocate long-time contracts without opportunity for withdrawal, and who believe that price fixing is an essential to success should study the record, business methods, and plan of organization of this, the oldest and most successful of California cooperative organizations. Strong-arm, monopolistic policies have succeeded for a few years under favorable conditions, but there are indications that their success is not permanent. The California Fruit Growers' Exchange has endured through the years and is in a stronger position to-day than at any previous time.

A Truly Cooperative Enterprise.—The California Fruit Growers' Exchange follows the traditional principles of cooperation which were first used by the Rochdale Pioneers. Modifications have been made in the application of these principles, because of the inherent differences between selling a citrus crop for producers and operating a store for the benefit of consumer members. The Rochdale Pioneers limited the dividends on capital stock to current interest rates and distributed the earnings of the business in proportion to patronage.

The California Fruit Growers' Exchange was originally capitalized for a nominal sum but was later reorganized and now operates as a non-capital stock corporation. There is, therefore, no question of the payment of dividends on stock. At the beginning of each season the estimated expenses for the season and the probable volume of shipments are computed, based on which an assessment per box is fixed by the central office. At the end of the year this is adjusted to actual cost. If the operating expense has been less than estimated, a return may be made to the shippers. Since the original charge was by the box, the refund, if any, is naturally made in the same way, that is, in proportion to patronage. There is no "profit." "The entire proceeds from the sale of the fruit, less only the actual overhead costs of the Exchange and its district exchanges, go to the local

associations for distribution to the growers after the retention of the association costs.''

The California Fruit Growers' Exchange and most of its subsidiary organizations follow the one-man, one-vote rule.

In addition to its being truly cooperative in form, the following reasons may be given for the success of the Exchange:

1. It adheres strictly to good business methods.
2. It renders a service to members that is not surpassed in either efficiency or economy by private business enterprise.
3. It depends upon the quality and economy of service to retain members rather than upon the arbitrary enforcement of a long-time contract.
4. The salaries that it pays are fairly commensurate with ability. It neither attempts to retain an outstanding man at a low salary nor considers that the mere payment of a large salary gives to an employee a corresponding value.
5. No attempt has ever been made to fix prices, create a monopoly, or stifle competition.

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CHAPTER XIV

RAISINS AND PRUNES

The economic production of raisins is possible only under the most favorable climatic conditions.

The principal raisin-producing region in the United States is in the San Joaquin Valley in California within a radius of fifty miles of the city of Fresno. A few raisins are produced in the Sacramento Valley and in southern California in the counties of San Diego and San Bernardino.

"Climatic conditions in interior California, particularly in the San Joaquin and Sacramento Valleys, are ideal for raisin culture, the intense dry heat of the summer serving not only to bring the grape to luscious maturity, but to cure it into the perfect raisin. The picked grapes are laid upon wooden or paper trays between the rows of vines and exposed to the sun for about ten days. This dries them on one side. Another tray is placed upon them as a cover, they are turned upside down and the first tray removed. This exposes the other side of the grapes to the sun and in another ten days they have become raisins."[1]

Prunes grow well in two districts in California, and in parts of Oregon, Washington, and Idaho. The cloudless summer skies and dry atmosphere of California give almost unexcelled opportunity for out-of-door drying. Because of this natural advantage the major portion of the prunes found on the American market are sun-dried California prunes.

Some Factors Influencing Methods of Marketing.—The marketing of raisins and prunes differs in many respects from the marketing of any food product previously discussed. There are, for example, no open markets providing a place where dried fruits may be bought and sold as wheat and other cereals are sold on the floor of the great grain exchanges. The price paid for wheat in Liverpool, Chicago, and other terminal markets reflects world supply and world demand

[1] Bulletin of the Sun Maid Raisin Growers.

and determines the price which will be offered for wheat by 5000 farmer-owned elevator companies.

Wheat may be grown under a great variety of climatic conditions and any increase in price is, therefore, quickly followed by an increase in acreage and production. Raisins and prunes can be produced economically in rather limited areas.

The acreage of wheat in any region where it is grown shifts from year to year, depending in part upon the profit made upon wheat in recent years and the profit made upon other crops. Because of the time required to set an orchard or vineyard and bring it into bearing, the supply of raisins and prunes cannot respond as readily to increase as does the supply of wheat. If the supply surpasses the demand producers are likely to lose heavily because of their large investment and the cost of clearing the land for some other crop.

Wheat is easy to store, and a surplus can be carried from a year of abundant crops to a year of scanty harvests. Raisins and prunes demand more expensive storage than does wheat. The surplus of a single season may be carried over in storage, but if the surplus is caused by overproduction due to an increased acreage the stored fruit is certain to depress the market the succeeding year.

Not only is wheat a staple crop but wheat flour is the great bread staple of the major portion of the white race. Most Americans demand wheat bread even though bread made from corn or some other cereal can be secured for a much lower price. Raisins and prunes are highly specialized products. Most of us eat them, but they do not form an important part of our diet.

Raisins and prunes are like citrus fruits in that they can be produced economically in rather limited areas and in that they are not such staple foods as bread and potatoes. They have, in fact, keener competition in gaining and holding public favor than have citrus fruits. The majority of American consumers have become accustomed to buying oranges, lemons, and grapefruit freely. Consumption increases when prices are low and decreases when they are high, but most of us feel that no other fruit quite takes the place of citrus fruits. On the other hand, few of us would notice the absence of raisin pie or raisin bread from the bill of fare. The raisins that are usually used in fruit cake and mince pie could doubtless be replaced in part by Grecian currants and other fruits without appreciable loss. Dried prunes are more popular than in former years, but must compete for favor with other dried fruits and with whatever fresh fruits are in the market. The average American housewife

serves prunes, not because her family demands them, but because they are cheap and wholesome. Raisins and prunes must therefore be produced and marketed efficiently in order that the price may be relatively low, and in addition their merits must be presented so attractively that the housewife will purchase them fairly freely when she goes to market.

The Cooperative Marketing of Raisins Came from Necessity.—"The raisin growers got together because, operating individually, they were unable to make a living out of their industry. Their community's wealthiest men were the packers and brokers who dealt in their product. Their community's poorest men were themselves. The raisin grower, in the years from 1904 to 1912, daily grew poorer and his situation grew more hopeless. He could not make a living off his land, nor could he sell it. His district was bankrupt. His children went ragged to cheaply built, poorly equipped schools. His weekly ride to town in a rattletrap buggy, behind a clumsy plow horse, was over corrugated and rutted trails of dust in the summer and bogs of slimy mud in winter. He actually envied the day laborer who had a definite income and no worry save to keep the household expenses inside the weekly pay check. The grower's pay check was in red ink; his toil, unceasing and full of drudgery, netted him less than nothing." [2]

The cause of these unsatisfactory conditions was not uneconomic production, as the average cost during these years was only about 3 cents per pound. Neither should the trouble be attributed to overproduction, because they were producing only about 35,000 tons a year, which was only about three-fourths of a pound per capita for our population. In 1916 American housewives purchased 107,000 tons. The real trouble was an inefficient marketing system, operated solely for the benefit of the men interested in it, without regard for either the producer or the consumer.

There were, at that time, ten packing plants, privately owned. The five largest were called the High Five, and the five smallest were called the Low Five. There were no other buyers of raisins. A producer had the option of either selling to one of these packers or of feeding his raisins to his hogs and horses. The price paid varied somewhat with the market, but averaged only about 2½ cents per pound, which was below the cost of production. There was apparently but little competition among the buyers. It is said that during the contracting season a producer would be called upon by the agent of only one buyer.

[2] A. C. Joy. Bulletin of the Sun Maid Raisin Growers.

A crisis was reached in 1912. Because of an unusually large crop the price of raisins fell, in some cases, to less than a cent a pound. The growers were desperate. The condition of the merchants, bankers, and professional men in the raisin-producing district was but little better than that of the farmers.

In a typical agricultural community practically everyone—merchant, mechanic, banker, doctor, lawyer, editor, preacher, and teacher—is dependent for his or her income upon the purchasing power of farm products. The farmer must receive and spend money before it can be expended by anyone else. If the farmer's income does not permit him to carry a reserve in the local bank, the bank will have little money to loan. If the farmer can buy only the most meager necessities the sales of the merchants will be small. Raisins at 1 cent or even at 2 cents a pound did not pay the essential costs of production. There was, therefore, no margin remaining to spend for barns, books, bathtubs, silk dresses, or entertainments.

In their desperation the raisin growers began to talk cooperation. Practically everyone realized that something must be done, and therefore the producers received encouragement from men in almost every occupation.

The California Associated Raisin Company.—The result of the discussion of cooperation was the California Associated Raisin Company. This was planned merely as a selling agent. The growers signed three-year irrevocable contracts with an option on the part of the company for two extra years. The contracts were to be effective upon the condition that 60 per cent of the raisin acreage of the state was signed. The campaign succeeded even better than was anticipated, 76 per cent of the acreage being signed between December 1, 1912, and April 1, 1913. Subscriptions for stock amounted to $800,000 but a very considerable part of this was of necessity sold to others than growers.

After the organization of their company the growers attempted to contract with the raisin packers to handle their product. Fortunately for them, their offer was refused. They therefore proceeded to pack the raisins themselves and make their own arrangements for reaching the wholesale trade. Responsibility for success or failure was theirs and theirs alone.

During their first season they were handicapped by a shortage of capital. Lacking cash, they were compelled to give short-time notes to the growers. The desperate need of both growers and company is indicated by the fact that some of their notes were one-day notes.

The men who had hitherto profited from packing and marketing raisins tried to stir up dissension and distrust among the producers. Some of the members were induced to break their contracts and sell to speculators. The company immediately brought suit against the contract breakers. The courts decided that the contracts were valid and enforceable.

Efficiency of Cooperation.—Previous to the organization of The Associated Raisin Growers difficulty had been experienced in marketing 30,000 or 40,000 tons of raisins in a year. The fact was that there was no one except the growers who was particularly interested in a large demand for raisins. The interest of the packers apparently centered in the margin of profit which could be secured. It is certain that they made no organized effective effort to increase profits by increasing the total volume of raisin sales. The new company, at the outset, faced a market that was not demanding raisins, a large carry-over of the 1912 crop, and a larger 1913 crop than had ever been marketed in any preceding year. It was a situation that demanded vigorous action.

A competent manager was secured. One of his first steps was to set a sales analyst at the task of finding out what was wrong with the raisin industry. The report showed that the consumer was not eating raisins. Sales were satisfactory in November and December, the season of mince pie, fruit cake and plum pudding, but during the remainder of the year there was very little demand. The job of the sales expert was to popularize raisins, to create for them an all-year demand.

The first thing that was done was to create a brand and establish standards. The second thing was to advertise raisins throughout the entire United States on billboards, in street cars, magazines, and daily papers, pointing out the good qualities of raisins and stimulating the desire of the consumer. As a result we are all familiar with Sun Maid raisins. When the housewife buys raisins of that brand she knows that the quality is guaranteed. We have learned that raisins have a high food value and that they may be used to impart a delicious flavor to many savory dishes.

The yearly advertising appropriations of the company are given in Table XII.

Cooperation Secured Results.—The Associated Raisin Growers packed and sold nearly 60,000 tons of the 1913 crop of raisins. This was the product of a little more than three-fourths of the total acreage. In addition they sold nearly 25,000 tons carried over from 1912. The

growers received about $3\frac{1}{2}$ cents per pound. In other words, the cooperative company alone marketed in one season more than twice as many raisins as the total sales of all companies in any preceding year, and was able to return to the growers the best net price that they had received for many years. The beginning of prosperity had reached Fresno and the surrounding country. Cooperation had succeeded.

TABLE XII

EXPENDITURES FOR ADVERTISING CALIFORNIA RAISINS

Year	Advertising Expense	Year	Advertising Expense	Year	Advertising Expense
1914	$120,000	1918	$290,000	1922	$1,800,000*
1915	240,000	1919	373,000	1923	3,000,000*
1916	219,000	1920	1,250,000	1924	2,000,000*
1917	287,000	1921	1,416,000		

* Estimates only. Based on published figures of advertising cost per ton.

The Influence of War and Prohibition.—The total production of California raisins and the percentage handled by the Associated Raisin Growers increased steadily for several years. The World War began in 1914 and all prices were advancing rapidly at the time the United States was compelled to enter the conflict in 1917. The Eighteenth Amendment became effective in 1918. The growers of wine grapes had prophesied that national prohibition would ruin them; instead it brought sudden and almost unsurpassed prosperity to them and likewise to the growers of raisin grapes. The use of raisins for the home manufacture of alcoholic beverages assumed unexpected proportions. It is a well-known fact that most men will pay willingly a higher price for their pleasures, or for luxuries, than for necessities. Raisins were purchased for use in the "home brew" at a price which was practically prohibitive to many housewives. The 1919 crop sold for more than double the price of the 1918 crop but was surpassed by the 1920 crop, and that in turn by the crop of 1921.

The California Associated Raisin Company Charged with Monopolizing and Restraining Trade.—The demand for raisins placed the Associated Raisin Company in a strong position. They controlled about 90 per cent of the supply of raisins, and, controlling the supply, were in a position to exert a dominant influence upon raisin prices.

They had a monopoly upon the raisin industry of America. Quite naturally the company wished to secure a good price for the producers. If they sold at a lower price than the consumers were willing to pay, it simply gave an opportunity for speculators to secure a profit without in any way relieving the needy consumer. Because of the sudden increase in demand and the resultant uncertainty of determining in advance at what price the crop of raisins could be sold, many large purchasers of raisins would sign contracts to buy raisins at a price to be determined subsequently in accordance with the practice known as "firm at opening price." Contracts were also signed in which the Raisin Company agreed to indemnify purchasers against loss if there should be a future decline in the market price of raisins. The buyers could sign the contracts knowing that everyone else would pay exactly the same price for raisins, and the raisin company was assured of receiving the highest possible market price from all purchasers. The price set by the Raisin Company would naturally be the highest price at which they believed it possible to move the entire crop. The only condition under which such a price would be lowered would be the decision by the Raisin Company that the maintaining of the price would result in a heavy carry-over of raisins. The prices set were certainly high, averaging 16.62 cents per pound for the 1919 crop and 18.71 cents for the 1920 crop f. o. b. California. It is impossible to state whether or not this was a higher price than the raisins would have sold for on an open competitive market.

The Federal Government evidently feared that complaints reaching them were justified, for an investigation was ordered, with the following results:

"In September, 1920, the Government brought suit against the California Associated Raisin Co., charging it with monopolizing and restraining trade in violation of the anti-trust laws. In September of that year a stipulation was entered into in lieu of an injunction requiring the Raisin Co. to release more than one-fourth of its holdings of raisins (40,000 tons) to competitors and to abandon the 'firm at opening price' contract and those involving guaranties against decline. It was also required to announce through advertisements in the newspapers of Fresno County, Calif., its willingness to release all grape growers who claimed that they were coerced into signing contracts with it.

"This case was disposed of in January, 1922, by the entry of a consent decree which enjoins and restrains the Raisin Co. from eliminating or decreasing competition in interstate or foreign com-

merce in raisins or raisin grapes by the purchase, lease, or control of the plant of any competitor or by means of any contract or concert of action with an existing or prospective competitor. It is also enjoined from securing or attempting to secure contracts with growers of raisin grapes by means of coercion or duress, or which eliminate or restrict or prevent others from freely competing to secure contracts with the growers of raisin grapes in California. All contracts entered into with raisin growers must contain a provision authorizing the grower to terminate the contract at the end of the first three years thereof or at the end of any two-year period thereafter; making or entering into contracts for the sale of raisins under which the quantity of raisins to be delivered to any purchaser or the price to be paid therefor is to be subsequently determined by the Raisin Co., in accordance with the practice known as 'Firm at opening price' or under which the Raisin Co. agrees to indemnify any purchaser against loss on account of a future decline in the market price of raisins, are forbidden; purchasing or agreeing to purchase raisins or raisin grapes from a competitor for the purpose of enabling the Raisin Co. to fix the price of such produce or to diminish competition; agreeing or combining either among themselves or with others to lessen or eliminate the supply of raisins or decrease the production or supply of raisin grapes or to diminish competition through the destruction or waste of raisins or otherwise; making a contract with a competitor for the packing of raisins exclusively for the Raisin Co. with an agreement 'exclusive dealing'; making a competitor the agent of the Raisin Co., with authority to sell raisins or raisin grapes at fixed prices, or excluding or preventing a competitor from marketing raisins or raisin grapes for himself or another; making contract under which the purchaser is obliged to resell raisins or raisin grapes at prices fixed in advance of such resale; making it a condition of any agreement or understanding that the purchaser of raisins or raisin grapes shall not deal in the products of a competitor of the Raisin Co., are all enjoined.

"Jurisdiction over the case was retained by the court for the purpose of enforcing the provisions of the decree or of modifying it in case any of its provisions should be found inappropriate or inadequate. Two of the most significant elements involved in the decree are that the 'firm at opening price' contracts must be abandoned and that the resale prices of raisin grapes or raisins can not be fixed by the company." [3]

The, Effect of High Prices.—The first effect of an increased demand is to increase price. Increased prices, if continued for any length of time, almost inevitably result in increased production. If an annual crop such as wheat, corn, or potatoes is high in price we usually find an increased acreage the following year. A some-

[3] U. S. D. A. Department Bulletin No. 1106, Legal Phases of Cooperative Associations, pp. 41, 42.

"That the raisin growers appreciate this is to be seen by the price declines of the last two years. The price must be adjusted to clear the market. Nothing but the success of the management in creating a larger demand has sustained the price at the present level in the face of the increased production, and it is evident that in the long run the price of raisins will be fixed by the same old law of supply and demand so often pronounced out-of-date and ineffective. The profits which are earned by superior organization and service will be retained: Those which result from mere control over price-fixing will not in the long run be excessive. So long as the returns for producing raisin-grapes are attractive, as compared with the returns upon other crops, production will continue to increase. If the association does not admit all applicants to membership, the latter will compete on the outside; if it admits them it must find a market for their product." [4]

The Sun Maid Raisin Growers' Association.—In 1922 the California Associated Raisin Growers changed its name to the Sun Maid Raisin Growers. A reorganization of the company was necessary to comply with the Capper-Volstead Act. Then too, the old contract undertook to guarantee payments that could not be made when markets were falling. More capital was needed to provide facilities to handle the crop. The theory that a cooperative association can get along with little actual paid-up capital, by borrowing necessary funds on warehouse receipts, members' notes, or company credit, has serious limitations in actual business practice.

Under the original plan of organization a part of the capital stock was owned by non-members who were, of course, interested in dividends. In order to comply with the Capper-Volstead Act it was necessary that all members be actual producers. In the reorganization two companies were formed: first, a selling association in which all of the stock was owned by the growers; second, a corporation chartered in Delaware which owned all the packing facilities and warehouses. The common stock of this second corporation, which was the voting stock, was owned by the selling association. The preferred stock was offered for sale to the general public. In a stock-selling compaign conducted in the spring of 1923, the company sold preferred stock in the Delaware corporation to the par value of more than $2,500,000. The business interests of San Francisco and Los Angeles made liberal purchases in order that the company might be adequately financed.

Greater difficulty was experienced in securing growers' contracts

[4] National City Bank of New York, Bulletin April, 1923, p. 56.

than in selling the preferred stock. A sign-up of 85 per cent of the raisin acreage was considered essential. A fitting celebration was planned for the completion of the membership campaign, but when the day came only 60 per cent of the acreage had been signed. The celebration was postponed and the time extended. Eighty-five per cent of the acreage was eventually secured, but stories of the use of "strong-arm" methods were rife. It is perhaps enough to say here that the destruction of vineyards and fruit trees and other forms of coercion exerted by "night riders" cannot secure loyalty in a co-operative organization.

The Sun Maid Raisin Growers operated less than two years. The burden of debt left by the California Associated Raisin Growers and assumed by the new company proved a heavy burden. The officers also believed that there should be a change in the form of organization. The company was therefore "placed in the hands of one of the directors as a friendly receiver to close up the business and clean the road for the new organization." The liabilities of the company were reported to be greatly in excess of the assets.

The New Sun Maid Companies.[5]—Three new associations were created early in 1924 to handle the marketing problems of the raisin growers. These were the Sun Maid Raisin Growers of California, the Sun Maid Raisin Growers of Delaware, and the Sunland Sales Association. Fresno, California, is the headquarters of all three associations. The Sun Maid Raisin Growers of California is a California corporation composed exclusively of growers. Its functions are those of maintaining the contracts and relationships with the growers, securing contracts and deliveries of raisins, arranging for and making advances to the growers, receiving the net proceeds of sales, prorating these proceeds to the growers, and, finally, supervising the economical and efficient fulfillment of the contract between this organization and the Sun Maid Raisin Growers of Delaware, the common stock of which is held by the California corporation.

The Sun Maid Raisin Growers of Delaware was created as a service organization to perform for the membership organization various purely commercial functions, such as processing, storing, and packing the annual crops. The work of this corporation has been separated into four major divisions: operation, merchandising, public relations, and office management and accounting.

[5] Adapted from Agricultural Cooperation, Vol. II, No. 3, p. 27, and Vol. III, No. 19, p. 375.

The Sunland Sales Cooperative Association was organized as a subsidiary of the Delaware corporation to take over the activities connected with the marketing of Sun Maid raisins in the United States. It is now (1927) handling products for several cooperative associations.

The Sun Maid Raisin Growers, Ltd., London, and the Sunland Sales Association of Canada, Ltd., are two more recent subsidiaries organized to care for the marketing of Sun Maid raisins in Europe and Canada.

A consolidated balance sheet of the Delaware corporation and its subsidiaries as of June 30, 1925, showed the total assets of the corporation to be $8,558,459. Of this amount $4,229,249 represented fixed assets after depreciation. The funded debt of the association was $2,580,500, and preferred 7 per cent cumulative capital stock outstanding amounted to $4,694,402. The 50,000 shares of common stock which is held by the growers' association, the Sun Maid Raisin Growers of California, is without par value.

Business Policy and Outlook.—As has been previously stated, the cooperative marketing of raisins succeeded during the first years of the Associated Raisin Growers because the marketing system which the cooperative company established was more efficient than the system which preceded it, and with which it was in competition. Standards and brands were established, and the buying public was kept informed of the many uses and good qualities of raisins.

The post-war inflation and the Eighteenth Amendment stimulated demand and increased the price of raisins. Unfortunately, a few of the men interested in the cooperative marketing of raisins conceived the idea that the association could fix the price of the product. Human nature is such that when the sale price of any commodity can be "fixed" arbitrarily, and the consumer made to pay all costs and a profit in addition, the desire to keep marketing costs down to the lowest possible point is much less than when price competition is keen. A short supply, a large demand, and a belief in the ability to fix prices naturally tend toward higher marketing costs.

The present management is wasting no energy in talking about price fixing, but is emphasizing efficiency. Table XIV gives the expenses for three years, calculated upon a per ton basis.

The members have very evidently learned that supply and demand have to be considered even in the marketing of a crop grown only in a limited area, and that the control of production is an essential of price fixing. The sales organization has a hard task because of

the undue stimulation given to the setting of vineyards during the period of high-priced raisins.

TABLE XIV

SOME OPERATING EXPENSES OF THE SUN MAID RAISIN GROWERS OF CALIFORNIA

Item	Nine Months Ending September 30		
	1922	1923	1924
Gross expense (per month-ton)	$14.40	$9.17	$5.02
Overhead expense (per ton of raisins sold)	17.97	9.84	5.77
	Crop Year Ending August 31		
	1921–1922	1922–1923	1923–1924
Advertising (per ton sold because of advertising)	$18.13	$12.39	$9.56
Operating Division expenses (per month-ton)	7.71	3.55	3.51
Cost of financing (per ton received)	2.49	3.12	2.10
Working capital (per month-ton)	0.61	0.45	0.21

Because of the low price of raisins in 1925, 28,000 cars of Muscat grapes and several thousand cars of other varieties grown primarily for raisins were shipped in the green state. These large shipments naturally depressed the market for juice grapes and table grapes. The Sun Maid Raisin companies will undoubtedly succeed, but it will be through the application of efficient marketing methods and not through monopoly control.

The Cooperative Marketing of Prunes.—The prune growers first formed a cooperative association in 1900. The majority of the growers in the Santa Clara Valley, which was then the most important prune-producing area in California, were members of the association. Prospects looked bright for their success, but the big prune packers broke the market by the simple expedient of dumping millions of pounds of prunes on the market just before the cooperative association was ready to market its pack. A large portion of these prunes was not sold until 1902.

The next cooperative movement came in 1917. Prunes had been selling to "the trade" at prices which the growers believed should

net them from 4 to 6 cents per pound. They received somewhat less, and as a result were dissatisfied even though they were prosperous. They organized because they believed they should receive a larger share of the wholesale price.

The California Prune and Apricot Growers, Inc., was planned by non-farmers. Within a period of four months 75 per cent of the prune growers had signed contracts, and the organization of the marketing machinery was in working order. The crop was marketed at an average price of about 6 cents per pound, which was higher than the growers had anticipated.

One of the most important factors which contributed to the success of the company was the standardization of the product. Prunes and apricots had been selling under about 300 different brands. The association abolished these and established three new brands—Sunsweet for the first grade, Growers brand for the second grade, and a third unnamed brand for the remainder. It is impossible to familiarize the buying public with 300 brands of prunes, or with 30 brands. By concentrating advertising on one or two brands, prunes can be sold by name and all of those of a certain brand and size can be guaranteed to be of a uniform grade.

A Theory of Price Fixing.—The 1918 crop was small and sold at a good price. The 1919 crop was large, but good advertising and the post-war boom moved it at an average price of 11½ cents per pound. This was about four times the average price received prior to 1917, and there was a tendency for some of the growers to feel that all the increase was due to certain features of their form of organization. Some men apparently believed that a method had been found which permitted farmers "to fix the price" for which their products would sell. There was little mention of the necessity of controlling supply in order to obtain the "fixed price." Men who were producing other crops, such as wheat and corn and hogs, were advised to follow the example of the prune growers, organize, make contracts with growers, pool their products, and "fix" the price for what they sold.

The following quotation from an address delivered at a marketing conference in Chicago, July 23, 1920, illustrates the belief that the prune growers were able to dominate prune prices:

"Coming back to the topic, this prune growers' association sells prunes. This year it is selling about 83 per cent of all the prunes in the State of California. It has 10,800 members in the association, everybody on the same standard, firm, fixed contract. It handles no

prunes except for its members. . . . Last July we made our so-called opening price on prunes. There was a meeting there and fifteen people present; thirteen of them were directors of the association, and the two others were a stenographer and myself. I just sort of butted in because I like to be there when they do exciting things. They were met to fix the price of prunes. Did you notice what I said? I didn't say they were together to accept the price which the Chicago Board of Trade or anybody else in the world put on prunes. They were met there to fix the price of prunes. They knew they could do it, because they had absolute contracts covering the better part, by far the greater part, of the prune crop of the United States. Mr. Coykendall, the General Manager, who is unquestionably the ablest man on cooperative marketing in the United States, slapped down on the table a great batch of contracts, and said. 'These are contracts between the California Prune and Apricot Growers and various wholesalers and buyers of prunes throughout the United States. These contracts are all signed. They cover 110,000,000 pounds of prunes. The price is not there. These contracts are all firm at our opening price, whatever price this association makes.' Did you growers or any of you ever in your lives hear of a condition where you could make contracts with buyers of your products, a signed, good contract, firm at any price you choose to fill in on it? Any man ever chance to hear of such a thing? That is how we sold our prunes. . . .

"I am trying to show you that the prune growers have reached the point where the industry is in their control; where nobody else tells them what price they will get; where they get the contracts there and pay the price, absolutely, for the trade. They first figure cost of production—they don't figure it as you men do, covering one year—they count in every possible hazard that comes in on prunes, including the fact that in 1918 there was a sudden rain of three days that wiped out about 40 per cent of the prune crop. That happens about once in every seven years. We load our costs with insurance against calamities of that kind. Then we reach a base amount below which we will not go in any case.

"We say to our sales managers, 'What is the best price at which you can be sure to have the entire crop of prunes eaten this year?' and that is the price we get.

"We call in our advertising manager and say to him, 'We are going to have a large crop of prunes this year and in some sections we are not sure we will be able to sell at a price that will move it. How many more could you add to the consumption of prunes by judicious advertising?' He tells us and we consider that when we make the price.

'You get the picture, now, of the thirteen directors sitting at that table advising with their advertising experts, their sales experts and even with a lawyer there, to be sure they are dead right, fixing a price on production and handling it in just the same way that the United States Steel Corporation handles steel rails. You have a

transfer of a purely speculative producing problem into a real business when it comes to solving it. . . .

"I want to give you the thought that, first, the prune growers sit there and sit like real business men, with real business experts and their advisors. At the same meeting, through our so-called Field Service Department we get all statistics—we don't have to depend upon getting either the Department of Agriculture or anybody else to give us facts. Our association knows more about the condition of prunes than any other group of human beings in the world. We have the information and we go get it, so that when we have that meeting we not only have the production in California, Idaho, Washington, France and the Balkans, but we have the demand all over the world. But we likewise have a report from the Field Service Department that says that prune prices have been so good that men are planting prune trees and by 1923 there will be an average crop in California, alone, of 300,000,000 pounds of prunes, with a world consumption of only 210,000,000 pounds a year.

"We sent a man over to Japan to find out how we could open up the Japanese markets on prunes. We then got a report from China on how we could open up that market—they eat lots of rice over there and with rice they ought to be dandy.

"We had a report showing that the per capita consumption of prunes is less than the per capita consumption of prunes in Germany and we decided to spend $220,000, which we did over that year on advertising prunes so as to get the people of the United States to eat more prunes, and to get the people of the European countries to eat more prunes. And you will notice, when this winter comes along, lots of ads inviting you to use more prunes. You see, I am boosting prunes already. (*Laughter.*)

"These ads will be spread all over the United States, and they will create an increasing demand for prunes. We are putting them out in 5-pound boxes so you will get them just as you like them.

"We are spending $220,000 right now to sell the crop of 1923. You can see that when 1923 comes there will be a mouth for every prune that can be raised in the United States—we are seeing to that.

"And you know what that means—that means merchandising. Instead of thinking of prunes from the standpoint of a single orchard, we are thinking of the selling of prunes as a business and not as a speculation. That is one of the instances in which California has completely worked out its cooperative problem." [6]

The prices named for the 1920 prune crop averaged about 12½ cents per pound, and, on the strength of the contracts already mentioned, 8 cents per pound was advanced to the growers. Shipments started, and then came the financial crisis of October and November.

[6] Sapiro, Aaron. American Farm Bureau Federation. Cooperative Marketing Bulletin No. 4, pp. 17–20.

Everyone—consumers, retailers, and wholesalers—stopped buying everything except necessities needed for immediate consumption. Prunes are a wholesome food but not an absolute necessity. Brokers and wholesalers who had signed contracts for prunes, expecting to sell them to jobbers and retailers at a nice profit, found that they would hardly sell at any price. As a result they canceled their contracts for prunes, 45,000,000 pounds in all, just as they canceled their orders for other kinds of merchandise. The Prune Growers found themselves in a perilous position. In order to pay a cash advance to the growers, they had borrowed heavily and the notes were coming due. In the emergency they dumped their prunes on the market, selling them at auction for what they would bring. Retail prices in New York dropped as low as 8 cents. Carloads of Idaho prunes were shipped to midwestern cities and sold in 25 and 50 pound boxes for as low as 5 and 6 cents a pound for small sizes. Growers and packers had to have money, and prices became secondary. Supply and demand were the dominant price-making forces. The "fixed prices" so glibly foretold in the address quoted failed to materialize for a considerable part of the crop.

Fortunately for the California Prune and Apricot Growers, Inc., they ultimately recovered from the firms that repudiated their contracts the difference between the price for which the prunes were originally sold and that which they brought at auction. Including those which brought this high price, the average for the season's pack was only 8 cents. Some of the men who received an initial advance of 8 cents for small sizes were compelled to refund a part of this advance by accepting a deduction from their returns for 1921. There may have been "a mouth for every prune"—provided that the prune was sold cheap enough.

Reorganization.—The California Prune and Apricot Growers, Inc., was reorganized in 1921 as the California Prune and Apricot Growers' Association. It is solely a selling organization. The packing plants are owned and operated and the prunes stored by the Growers' Packing and Warehousing Corporation. The common stock in the company is controlled by the marketing association; the preferred stock is sold to the general public. The packing company has been paid a rate for its service which returns a good profit. A part of this profit is being used to retire the preferred stock. Ultimately the growers will probably gain complete ownership of the packing company.

The California Prune and Apricot Growers' Association has occu-

pied an important position in the marketing of California prunes and apricots ever since its organization. In 1924 approximately 66 per cent of the prune acreage and 60 per cent of the apricot acreage of the state was owned by its members. Each member of the association signs a ten-year irrevocable contract in which he agrees to deliver his product and to pay liquidated damages in case he fails to deliver. A proposal submitted to the members in 1925 to permit annual withdrawals received slightly less than one-half of the ballots cast.

The control of the California Prune and Apricot Association is highly centralized. Its plan of organization is unlike that of the citrus growers in that there are no local associations and no district exchanges. Each member joins the central association. It is manifestly impossible for any very considerable part of the more than 11,000 members to meet together to elect directors or transact other business of the association. The directors have been elected by a voting board. Because of charges that the voting board as originally organized was too far removed from the members, changes were made in 1924 to bring about more democratic control. The voting board which elects the directors is now elected by districts, and each member of the board must reside in the district from which he is elected. The members of the voting board serve terms of three years, one-third being elected each year.

At the annual meeting in May, 1928, the members adopted the report of a committee on reorganization and also several amendments to the articles of incorporation and by-laws, which will permit the association to reorganize as a federation of local associations. Under the new plan the local associations will own and operate the local packing plants. The reorganization committee urged that under their plan "it will be easier to maintain contact with the growers as well as to hold their interest and loyalty. The idea that an organization must have monopoly control of the product it handles was discounted by many of the growers who believed that a loyal and satisfied membership was more important than a large percentage of control."[7]

Price Fixing No Longer Attempted.—Irrespective of what others may say, the mangement does not cherish any delusions about "price fixing." It is their job to sell prunes and they realize that the price which they ask must be the price at which the crop will move. If the asking price is too high, buyers will either restrict their purchases or patronize some competitor. This is well exemplified in a statement

[7] Agricultural Cooperation, Vol. VI, No. 13, p. 247.

issued October 19, 1923, by the general manager of the association. A part of the statement is as follows:

"The 1922 bulk basis opening price does not represent the average price at which the 1922 crop was sold. The opening prices in 1922 were set so high that the selling prices have been on a decline ever since the opening price was named. The result is that the growers will not realize last year's opening price.

"By starting with a low price we hope to be able to advance through the whole selling season instead of suffering a decline in prices.

"It will be admitted generally that our 1923 prices are low, considering the shortage of the 1923 crop. There are, however, a number of important factors which had to be taken into consideration in arriving at these prices. Much information regarding conditions in the most important markets of the country was developed in the many conferences that I had with our brokers and important customers in the East. In fact this information was so important that I felt it desirable to cut short my stay in the East and return to San José so that a thorough discussion could be had with our executive committee. The details of our discussions are embodied in the prices now announced.

"It must be remembered that there is still a considerable quantity of 1922 crop on hand, the association having about 15,000,000 pounds. Another fact to consider in making low prices was that fruits of all kinds, fresh or dried, are on an extremely low basis throughout the country and therefore the trade would not be interested in prunes at high-level opening prices. Moreover, our competitors have been selling 1923 prunes at prices somewhat lower even than our opening prices. All of these factors were considered in arriving at a decision regarding our opening prices on 1923 crop prunes." [8]

Efficiency in Management.—The era of high prices and imagined price fixing left an unfortunate legacy with the California Prune and Apricot Growers' Association in the form of an expensive organization and a large number of packing plants purchased at a high price. As everyone knows, it is easier to increase salaries and other expenses than to reduce them.

That retrenchment under such conditions is possible was indicated by the announcement of the president that the amount expended for salaries and wages during the first three months of 1925 was but 48 per cent of the amount of the payroll for the corresponding months of 1924.

Advertising costs have been reduced without reducing prune consumption. The association has been troubled with heavy carry-overs,

[8] The Packer, October 20, 1923.

but the 1924 prune crop was all sold and settlement completed by October 15, 1925. The cost of advertising prunes in recent years was as follows:

1922–1923	$484,674
1923–1924	449,353
1924–1925	346,000
1925–1926	80,229
1926–1927	242,780

Volume of Business.—The volume of business of the California Prune and Apricot Growers' Association for the six years 1922-27, inclusive, is given in Table XV.

TABLE XV

VOLUME OF BUSINESS HANDLED BY THE CALIFORNIA PRUNE AND APRICOT GROWERS' ASSOCIATION, 1922–1927

Crop Year	Prunes		Apricots		Pits
	California Crop, Per Cent	Pounds	California Crop, Per Cent	Pounds	
1922	56	144,538,800	47	14,540,802	5,237,276
1923	52	137,694,938	41	24,690,557	6,447,669
1924	44	121,747,559	24	7,704,182	2,196,243
1925	47	138,100,257	19	6,811,499	1,588,735
1926	46	128,149,097	18	6,138,311	1,755,494
1927	....	105,737,772	....	10,192,464	

Basic Principles.—The Sun Maid Raisin Growers and the California Prune and Apricot Growers' Associations have applied well-known cooperative principles with undoubted success. No man has more than one vote, and capital stock is paid only current interest rates. Incidentally it should not be forgotten that although each of these associations is organized as a non-stock company capital stock is issued in a subsidiary company controlled by the selling organization. There are no direct patronage dividends because they follow the plan of the California Fruit Growers and the Livestock Shipping Associations of the Middle West and pay the members actual receipts less selling and handling charges. The fundamental principle is the same. The contract plan of the Danish cooperators and the citrus growers has been followed in the main, except that less opportunity

is offered for members to withdraw. The yearly pool works out well with both prunes and raisins because the entire crop matures within a reasonably short period of time, because they can be readily graded, because they are nearly all shipped to a distant market, and because the marketing of the crop is distributed throughout the year.

Such success as these organizations have achieved cannot be said to be due to their doing anything new and startling. Their one marked departure from the plans of some of the older cooperative organizations, the centering of all memberships in a single large organization with no local units, has certainly not worked out as satisfactorily as its advocates at one time predicted. As has been previously stated, the Prune and Apricot Growers after eleven years' trial have voted to change to a system of federated locals.

The associations do deserve credit for establishing grades and standards, for the use of good business methods, for reducing market steps, and for increasing consumption by advertising. All these things have been done by some older cooperative organizations, and some of them by all cooperative organizations. Not all of their methods or policies are of universal application. For example, grain growers could hardly hope to secure an appreciable increase in the American consumption of wheat through advertising without causing a corresponding decrease in the consumption of other staples. Other exceptions will doubtless occur to every thoughtful reader.

Students of cooperation will continue to watch the progress of these two somewhat similar organizations with unabated interest. A few years ago they were heralded as models for all cooperatives to follow. Since then they have made changes in the direction of the older associations and away from price fixing. The members who have remained loyal through the period of overproduction and low prices, which came largely as a result of price-fixing propaganda, and the officials who have reduced operation costs and found an outlet for a large volume of semi-perishable non-staple products deserve unstinted praise.

SUGGESTED READINGS

Agricultural Cooperation. Many articles in Volumes II, III, and IV.

Cooperative Marketing and the Raisin Industry. Bulletin Issued by Sun Maid Raisin Growers.

JOY, AL. C. Cooperative Marketing and the Consumer. Sun Maid Raisin Growers.

National City Bank of New York. Monthly Bulletin, April, 1923.

SAPIRO, AARON. American Farm Bureau Federation. Cooperative Marketing Bulletin No. 4.

STEEN, HERMAN. Cooperative Marketing. Chapter III. Doubleday, Page & Co.

CHAPTER XV

COTTON

The average annual world production of cotton for the eight-year period 1919–26, inclusive, was 22,196,250 bales. During these years an annual average crop of 12,552,375 bales, nearly 57 per cent of the world's crop, was produced in the United States. Our average annual export of cotton during this period was 6,594,625 bales, valued at $873,813,875. The average annual value of all our exports during these same years was $5,261,640,375. Cotton is our most important single export, constituting nearly 17 per cent of the total value of all our exports.

A very considerable part of nearly all our staple products is consumed on the farm where grown, thus decreasing the amount offered for sale. Hay, corn, and oats are not only fed to livestock which is being fattened for the market, but are also fed to work horses. About 6 per cent of our wheat crop is required for seed, and when the price is low many thousands of bushels are used for feed. On many farms the principal object of producing milk, butter, poultry, eggs, fruit, and vegetables is to have a bountiful supply for home use. Cotton is one of the very few crops which cannot be utilized directly by the producer. It must all be sold. The marketing of cotton is, therefore, relatively more important than the marketing of almost any other farm product.

Economic Factors Affecting the Marketing of Cotton.—Conditions of land tenure in the Cotton Belt are quite different from those prevailing in the chief grain-producing regions. The plantation system developed in the South during the years of slavery. The land was owned by a comparatively small number of men, was tilled by negroes, and was managed by overseers. The family farm, which has always been the prevailing size in the North, was unknown in the South except in the poorer regions.

Following the Civil War the planters who were able hired the negroes for wages. This proved unsatisfactory because the price of cotton fell rapidly and in many instances did not bring enough to

pay for the hired labor. In his book "The Cotton Industry," Hammond makes the following statement:

> "Weekly or monthly payments, aside from the fact that they were impossible to the planter, were thoroughly unsatisfactory to him, for once the negro had obtained his pay nothing would induce him to return to the cotton fields until he had spent every cent of his earnings. Often he would refuse to hire his services for more than two days a week. Even when working for annual wages, this indisposition on the part of the negro to work steadily was the most serious drawback to the wage system."

Many of the planters tried to sell their land, but there was little demand at any price. Neither the poorer whites nor the freedmen had sufficient capital to purchase any considerable acreage although thousands of small farms were sold.

In order that the land might be farmed, lien laws, which gave farmers the right to mortgage growing or unplanted crops, were enacted in nearly all the southern states. This was the only security they had to offer and credit could be obtained in no other way. Under these laws the money lender of to-day is usually able to dictate the kind and acreage of crop which shall be put out and how it shall be tended. The time of payment of the debt practically fixes the time when the crop must be sold.

Local merchants, who are often also landowners and cotton buyers, are the most common source of credit. Little money is advanced. The merchant takes a mortgage on the season's crop, usually unplanted, and allows the farmer credit each month in proportion to his crop acreage. The borrower must necessarily purchase all goods of the merchant who holds the crop lien. He must pay the price asked or he cannot buy. He can trade nowhere else except for cash, and he has no cash. He must also, in many instances, sell to the merchant who holds the lien, and this places him at a decided disadvantage. He must continue to trade with the merchant until entirely out of debt, because no one else will give him credit. It has been to the immediate advantage of the merchants to discourage the production of corn, bacon, and vegetables. They wish to keep the customer and sell the goods. As Grady tells us, "When the farmer saw the wisdom of raising his own corn, bacon, grass, and stock, he was notified that reducing his cotton acreage was reducing his line of credit." The farmer was seldom able to "pay out." He secured a low price for his cotton, paid a high price for his goods, and was kept in debt and raising cotton.

The teaching of the advantages of home owning, keeping livestock, and practicing diversified farming has done much to improve conditions, but they are as yet far from satisfactory, if the 1920 census may be considered as an accurate index.

TABLE XVI

MISSISSIPPI AGRICULTURE

(U. S. Bureau of the Census 1920)

Number of farms	272,101
Number of farms of 49 acres or less	182,748
Number of tenant farms	179,802
Number of croppers	86,859
Number of non-white tenants	137,848
Average Values	
Land per farm	$2,359
Buildings	544
Implements and machinery	147
Livestock on farms	496
All property per farm	$3,546

It will be readily seen that nearly two-thirds of the farms are rented by tenants and that nearly one-half of these tenant farms are operated by "croppers." The low value of the livestock and equipment on the average farm indicates how little capital the "croppers" and other tenants are using. Under such conditions, there can be less independence in the marketing of products than is enjoyed in a region of greater economic strength.

The system of land tenantry which has been described was probably necessary under the conditions which existed when it was first inaugurated. Upon it, however, more than upon any other one thing must be laid the responsibility for the overproduction of cotton and the consequent low price which continued almost without interruption from shortly after the close of the Civil War until our entry into the World War. The farmer, and particularly the negro farmer, needed education in production, in marketing, and in standards of living. Because cotton was produced in such abundance the price was low; because the price was low, it was unprofitable; and because it was unprofitable those who grew it were necessarily deprived of

the learning and opportunity that would have enabled them to diversify their agriculture and adopt a higher standard of living.

The Cotton-marketing System.—Cotton, as it is picked in the field, is bulky and requires considerable room for storage. Because of the cost of constructing farm storage, as well as for other reasons, it is therefore customary for the small farmer to haul his cotton in relatively small lots to the cotton gin where the seed is removed and the fiber is pressed into bales of about 500 pounds each. The cotton bale is wrapped in burlap and bound with six sheet-iron bands. In the purchase of cotton allowance is always made for tare, that is, for the weight of the bagging and ties. A 500-pound bale is generally considered as containing 470 pounds of cotton. If the tare is actually greater than the amount allowed, the seller is the gainer; if it is less, the buyer has an advantage. The outside appearance of a well-made, well-covered bale of cotton gives little indication of the quality of the cotton within. The fiber may be either long or short, clean or dirty, dry or moist, uniform or varied. A bale that has better cotton at top and bottom than in the interior is said to be "plated." Bales containing a high percentage of moisture are said to be "water packed." This is usually due to leaking pistons resulting from the use of inefficient compressing equipment.

In order to determine the quality of a bale of cotton, each prospective buyer must "sample" it. Before the bale of cotton is sold several samples are usually taken. While each sample weighs but little, excess sampling spells a loss to the grower, and a very distinct gain to the buyer who samples many bales.

The Cotton Standards Act of 1923 authorizes the Secretary of Agriculture "to establish from time to time standards for the classification of cotton by which its quality or value may be judged or determined for commercial purposes, which shall be known as the official cotton standards of the United States." The Act further provides that it shall be unlawful to describe or designate cotton which enters into interstate or foreign commerce in any other way than by the official cotton standards. Cotton not within the official standards is exempt from the provisions of the Act, as are also sales by actual sample. The Secretary of Agriculture is authorized to issue licenses to grade and classify cotton to such persons as present satisfactory evidence of competency.

Unfortunately, the average producer knows little of cotton grades and many country buyers are not anxious that he should learn. The cotton is sold "by sample," and often the seller does not know the

grade of the sample or the price which should be paid for any specific grade. Under such conditions the most effective factor regulating the local market is the competition between buyers.

As has already been stated, the cotton when baled is often sold to the country merchant who has furnished operating capital for the "cropper." Other tenants and landowners may sell to the local merchant, to other local buyers, or to representatives of jobbing firms or mills.

Cotton is sometimes sold "in the seed," but this method is unsatisfactory because the buyer is unable to determine the percentage of lint that is contained in any one load of cotton. Because of this uncertainty he places his price low enough to insure him against loss, and the grower whose cotton is relatively free from dirt or is low in seed content does not receive the full value of his product.

After cotton has been purchased by the buyers at country points it is shipped to cities where cotton warehouses and cotton markets have been established. Among the most important concentration points are Houston, Galveston, New Orleans, Savannah, and Memphis. It is in these market centers that the cotton is really graded and classified for the inspection of buyers. Manufacturers, speculators, exporters, commission merchants, and other buyers compete on the cotton exchange for their supplies.

The fact that the major part of a cotton crop goes to market in a relatively short time after picking encourages speculation. Someone must hold the cotton until it is used in manufacture. The possibility of price variation is a second factor favoring speculation. Production varies widely from year to year. Price is affected not only by the available supply but also by changing demands. Not only is cotton purchased for storage in the hope of a price increase, but it is bought and sold on future contracts. The cotton crop may actually be bought and sold many times before it reaches the loom. The individual producer of cotton is an unimportant factor in the marketing of his crop.

The cotton farmers have long been dissatisfied with the cotton-marketing system and have sought for some better method. Naturally they have followed the lead of producers of other products and turned to cooperation.

First Efforts at Cooperation in Marketing of Cotton.—When the Grange Movement was at its height in the early seventies, cotton was marketed by the Granges of Alabama, Georgia, Mississippi, and

Louisiana. Some price increases were received, but the movement ended when the membership of the Grange declined.

During the eighties and nineties attempts were made by the Southern Cotton Association and Southern Cotton Growers' Protective Association to increase prices by decreasing production. Because of the system of credit and land rental which has already been discussed, any reduction in acreage was made difficult. Some growers actually did reduce acreage during each campaign, but their reduction was often equaled by the increase of other growers. In 1895 there was an actual acreage decrease of about 15 per cent, but this decrease was doubtless due as much to the large crop and ruinously low price of 1894 as to the efforts of the Association. In 1896 the acreage was almost as large as in 1894.

In 1903 cotton sold for the highest price in nearly thirty years. The effect was an increase of nearly 12 per cent in the cotton acreage of 1904. The total production broke all previous records, exceeding that of the preceding year by more than 36 per cent. In December, 1903, middling upland cotton sold for as high as $14.10 per hundredweight on the New York market; in December, 1904, it fell to as low as $6.85. The supply exceeded all probable demands. Not only the cotton grower, but his merchant, his banker, and nearly all other business interests faced a desperate situation.

The Southern Cotton Growers' Protective Association strove to meet the emergency. Harvey Jordan, the president, in an address at their annual convention advocated reducing the cotton acreage from 25 to 40 per cent:

> "Instead of planting 32,000,000 acres as in 1904, plant not more than 24,000,000 acres and make this year not more than 8,500,000 or 9,000,000 bales. This course, if pursued, would enable the present unsold crop to sell for a reasonable price, and assure the crop of 1905 to be profitable.
>
> "The farmer who under existing conditions, and in the face of the great financial peril which confronts the South, deliberately refuses to materially reduce his cotton acreage and increase his food-supply crops is an enemy to himself and a traitor to his country.
>
> "The merchant or banker who will deliberately furnish supplies or money to any man to plant an extended acreage in cotton this year deserves the deepest condemnation and literal ostracism of the entire community in which they do business."

The convention approved the sentiments of Mr. Jordan and put on a vigorous campaign for a reduction in cotton acreage. The plan

worked, although it is probable that the low price was a much more effective factor than the advice of the Association. The 1905 acreage and the yield per acre were both smaller than in 1904, the reduction in production being more than 21 per cent. The farm price of cotton averaged higher in December, 1905, than in the previous high-record year of 1903. The Association was jubilant. They believed that the problem was solved and that the prosperity of the cotton grower was practically assured. In their annual convention an even greater reduction was advocated for the succeeding year. A small crop would certainly sell for more than a large crop. Apparently everyone was enthusiastic over the plan.

The leaders of the movement failed, however, to recognize the selfishness that is inherent in most men. Thousands of farmers who advocated reduction in public put in a few more acres of cotton in order to profit from the price increase that they thought would follow reduction. The result was that the cotton acreage exceeded the acreage of 1904 and the crop was nearly as large. Prices fell. The voluntary crop-reduction movement proved a total failure when put to a real test.

The Farmers' Union of the South had also favored a reduction in cotton acreage but placed their chief reliance upon inducing cotton producers to hold for an established minimum price. With this end in view warehouses for storing cotton were constructed cooperatively. The total amount stored by the farmers as a result of their efforts was a small percentage of the total crop. Sometimes cotton sold for less than the minimum price named by the Farmers' Union, and sometimes it sold for a higher price. The United States Commissioner of Corporations discusses the results of the movement as follows:

> "Owing to the multitude of causes affecting prices of cotton it is exceedingly difficult to determine the effect of any specific cause, and anything like a precise measurement of such effect is impossible. Thus, in the case of the Farmers' Union there is absolutely no means of determining to what extent the time of selling or the price received by the producer was affected by the action of the Union in recommending the minimum price. It follows that it is not only impossible to tell whether individual producers gained or lost as a result of the minimum price policy, but also whether the course of prices was at all influenced by that policy."

Although the efforts to control production and price did not secure the results desired, they were followed by an altogether unexpected development. English and German spinners learned of the plans to

increase the price of American cotton and immediately set plans in operation to secure an independent source of supply. Very largely as a result of their efforts, the production of cotton in the British and German colonies in Africa increased ten-fold from 1904 to 1913. The World War naturally interfered with developments for a time, but since the war there has been renewed activity among the British spinners to develop the cotton industry of the colonies.

No student of cooperative marketing can fail to note that during all this period, from the time of Grange activity to the period of the World War, nearly all efforts of cotton producers had been concentrated upon two objectives: first, the restriction of production; and second, the holding of cotton for an established minimum price. Even the warehouse movement linked up more or less closely with the idea of price fixing. There was no generally organized effort among producers to take over the ginning of cotton and the shipment to terminal markets. There was no striving for increased efficiency in handling. In this they differed from other producers previously studied. In spite of overproduction the farmers of the Grain Belt increased prices by gaining control of the local marketing machinery and taking their products to the terminal markets. The citrus growers of California not only took over the marketing machinery but increased consumption. The cotton producer placed his reliance upon methods which proved impracticable. Two marketing aids did begin development near the end of the period, the Federal Warehouse system and the establishment of standards for cotton by the United States Department of Agriculture. Probably the agitation of the farmers had more to do with both these movements than any other one thing. The Farmers' Union had talked the need of cotton storage, had urged the cooperative building of warehouses, and had aided in the passage of the Federal Warehouse law.

Effect of the World War on Cotton Prices.—The 1914 cotton crop, both for the United States and for the world as a whole, was larger than for any preceding year. The price would undoubtedly have been low under normal conditions, but the derangement of business and transportation due to the war decreased demand, and American cotton fell to the lowest prices recorded for many years. Patriotic citizens were urged to "buy a bale" for storage in order to assist the hard-pressed cotton growers. Influenced by the low price, and possibly to a slight extent by the advice of bankers and various farmer organizations, the growers decreased their acreage for 1915. War demands soon made themselves felt, and cotton rose each year

in price until "middling upland" sold in New York in May, 1920, for from 40 to 43 cents per pound. The rapid spread of the boll weevil aided in keeping down production, so that although the cotton acreage for the five-year period 1915–19 was almost as great as for the years 1909–13, there was a 12 per cent decrease in production.

The financial depression which began in the autumn of 1920 forced down the price of cotton until "middling upland" sold in New York the following spring at from 12 to 13 cents per pound. The time for one type of organization had arrived. With the boll weevil restricting production and an increased demand assured, whenever there should come a revival of business, conditions were ideal for a producer price-fixing movement.

American Cotton Association.—The prosperity of the Cotton Belt during the World War stimulated a desire for a continuance of high cotton prices. For the accomplishment of this object the American Cotton Association was organized in 1918. Its first move was to advocate a reduced acreage in 1919. The war was over and a decreased demand was predicted. The acreage was decreased because bankers and business men as a whole anticipated a post-war depression. The inflation continued, however, during 1919, and as a result the short crop of that year brought a high price. The failure of the depression to come when it was expected led many people to believe that it would never come at all. Caution was laid aside and nearly every cotton producer planted an increased acreage. Cost mattered but little, provided the selling price of cotton was high. Before this big acreage of high-cost cotton could be marketed or even harvested, the long-delayed depression arrived and the price of farm products dropped.

The American Cotton Association was already considering cooperative marketing. It was discussed at their annual convention in April, 1920, and a committee appointed to work out plans. The committee submitted its report at a meeting of the association in September, 1920. The plan presented was logical. It provided for the organization of locals which should be combined into county or district units, which in turn should be combined into a state association. Each local association would own or lease a warehouse to which all the cotton grown by members was to be delivered. The county or district associations would employ cotton graders. The idea back of the plan was to assist the members in obtaining a fair market price for the crop. Storing, grading, financing, and direct sale to spinners were considered. The plan of the association contained latent pos-

sibilities but aroused little enthusiasm, and it obtained but few members. The farmers had raised a big crop of cotton which would not sell for enough to pay the essential costs of production. They wanted immediate relief, preferably a return to the high prices of 1916–19. A plan that promised "to fix the price" of cotton had a stronger appeal than a discussion of reducing market costs.

Oklahoma Cotton Growers' Association.—At the meeting of the American Cotton Association in April, 1920, the plan of marketing California prunes and raisins was discussed. Many persons believed during that time of rising prices that these California associations were really able to "fix prices" for their products. The idea appealed to the imagination of the cotton growers. Some of the delegates to the convention wanted immediate action and chafed under the restraint of waiting until a committee should investigate and report.

The Oklahoma Cotton Growers' Association drew up a contract and began a membership campaign in 1920. Their plan is modeled quite largely after that of the California Associated Raisin Company which is described in Chapter XIV. It provides for a state-wide, non-stock, non-profit association of cotton growers. A subsidiary corporation issues common and preferred stock. The common stock is the voting stock and is all held by the parent association. The preferred stock is sold to whoever will purchase. This gives the cotton association exemption under the anti-trust laws, and at the same time provides a separate organization to provide for storage of cotton in public warehouses, pay charges, and issue the warehouse receipts which are used as collateral when the association borrows funds. The plan includes the gradual retirement of the preferred stock by making a small deduction for this purpose upon every bale of cotton sold.

Every member pays a membership fee of $10 and signs a contract agreeing to deliver the cotton which he produces for seven years, and stipulates further that if he should not deliver his cotton he will pay liquidated damages of 5 cents per pound and all costs. The title to the cotton is vested in the association.

The Association agrees to sell the cotton and pay to each producer his proportionate share of the receipts, less the cost of handling and selling. All cotton is pooled by grade and staple, without regard either for the time of delivery or the time of sale. Each member, therefore, receives for his cotton the average price for which the association sells cotton of that grade, less only the actual cost of handling and selling. At time of delivery each member receives a

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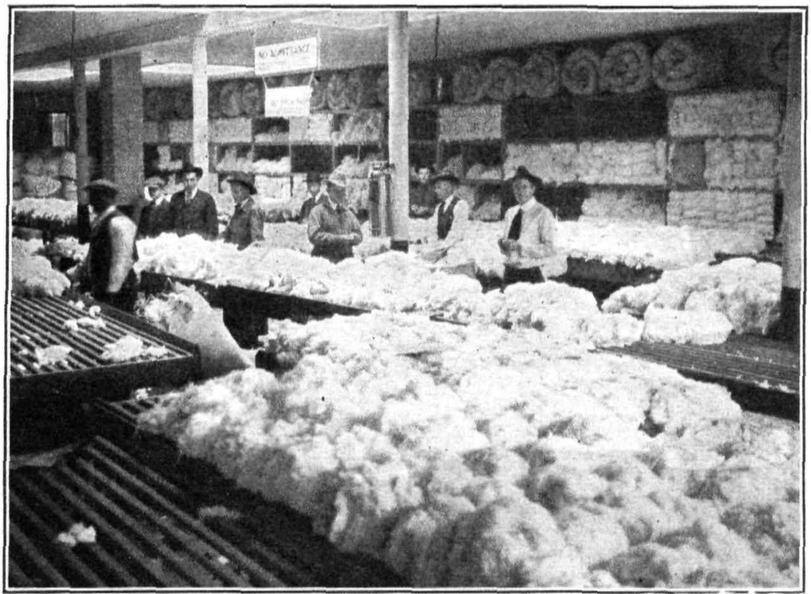
substantial payment upon his cotton, but final payment is not made until a pool is closed.

The plan of receiving and grading cotton has been described as follows:

"Each farmer as he receives a bale from the gin turns it over to the local representative of the association and, through his local bank, draws on the association for 60 per cent of the spot price for middling



Courtesy U. S. D. A.

FIG. 11.—Cotton Classing by Staple Cotton Cooperative Association, Greenwood, Mississippi.

cotton for the day. A sample of the bale of cotton is sent to the grading room at headquarters at Oklahoma City. Each bale is so tagged as to maintain its identity, and a similar tag goes along with the sample. A strict record is kept of the number and weights of bales of each member of the association."[1]

The Oklahoma Cotton Growers had two difficulties in handling the 1921 crop, the financing of first payments to members and the securing of delivery of cotton covered by a crop mortgage. The Association was new and untried, and the Oklahoma banks were feeling the strain

[1] Cates, J. Sidney. A New Deal for the Cotton Farmer. Country Gentleman, Vol. 87, No. 6.

of the post-war depression. Some of the banks that had promised funds failed to provide them. The War Finance Corporation came to the rescue and loaned $2,400,000 in addition to $3,100,000 loaned by Oklahoma banks.

A crop mortgage has precedence of a marketing contract. In 1921 many of the mortgagees were pressed for money and, as a result, demanded that the cotton be sold for spot cash. This reduced the amount delivered to the Association below the amount for which it contracted.

The Oklahoma Cotton Association undoubtedly secured better returns for the 1921 cotton crop of its members than was secured by

Courtesy U. S. D. A.

FIG. 12.—Cooperative Cotton Gin, Chillicothe, Texas.

non-members. The association estimated its average increase at about $3 per bale.

Other Cotton-marketing Organizations.—The success of the Oklahoma cotton producers in forming an organization stimulated activity in other states. The Staple Cotton Growers' Association secured 2200 members in 1920 and 1921 among the growers of long-staple cotton in the Mississippi Delta region. These were mostly large growers. Instead of building their own sales organization they took over the business of a large cotton merchant at Greenville, Mississippi, agreeing to pay him 25 cents a bale for every bale handled, and guaranteeing him at least $50,000 for the year. The Association secured for its members in 1921 about 6 cents more a pound than was received

by outside growers. The Texas Farm Bureau Cotton Association was organized in time to market approximately 100,000 bales of cotton of the 1921 crop. Nearly all other cotton states perfected organizations in time to handle the 1922 crop of cotton. They followed closely the form of organization and the contract adopted by the Oklahoma Association. Their contracts, however, were for five years instead of seven, and in Texas the Association had a joint membership agreement with the Texas Farm Bureau.

Some of the state marketing associations are fostering the establishment of cooperative cotton gins. In Texas a holding company has

Courtesy U. S. D. A.

FIG. 13.—Headquarters of the Texas Farm Bureau Cotton Association, Dallas, Texas.

This property, owned by the Association, is valued at $171,250.

been organized which owns the gins. They are built only at points where the growers of sufficient cotton to warrant the investment are interested in cooperative enterprise. In some states the ownership and management of the gins are local although aid in organization is usually given by the state association.

Present Status of the State Cooperative Market Associations.—The cotton-marketing associations developed slowly, both in number of members and in percentage of the crop handled, from 1922–23 to 1925–26. In the latter year they had about 3,000,000 members, but in every year many members of some of the associations failed to deliver all of their cotton.

The business of the associations, measured either in bales or in

percentage of the crop handled, was less in 1926–27 than for the year preceding, and less in 1927–28 than in 1926–27. This decrease in business was due primarily to the expiring of the original five-year contracts in some of the states and a failure to secure enough new contracts to replace those that expired.

In spite of the decrease in business and membership the associations are probably in as satisfactory a condition as they have ever been. For one thing, the morale is higher because they are no longer burdened with a group of dissatisfied members. That so large a portion of the old members have signed a second contract is a hopeful sign. It shows a confidence in the work of the associations that should aid in securing new members.

The percentage of the total cotton crops marketed cooperatively in successive years is as follows: 1921–22, 5.3 per cent; 1922–23, 7.4 per cent; 1923–24, 8.9 per cent; 1924–25, 8.0 per cent; 1925–26, 9.1 per cent; 1926–27, 6.7 per cent.

The names of fifteen centralized associations, with other information concerning them, are presented in Table XVII.

American Cotton Growers' Exchange.—The organization of so many state associations was naturally followed by the formation of a national organization to take care of the many things that can be performed better by an overhead organization than by state or local associations. Thirteen state associations comprised the membership in 1927. The association is organized on the non-stock non-profit plan and is unincorporated.

The following departments, provided for in the agreement creating the exchange, indicate the possible scope of its activities: (1) executive and administrative, (2) office management, (3) grading and standardizing, (4) warehousing, (5) insurance, (6) transportation, (7) finance, (8) statistical, (9) sales of ordinary cotton, domestic and foreign, (10) legal, (11) field service.[2]

Not all these possible activities have been developed. Among the services furnished the unit members, the more important are economic information, accounting, foreign sales, and sales to American spinners. More than 100 cotton mills in the Carolinas, Georgia, and Alabama bought cotton of the 1926 crop from the state associations through the American Cotton Growers' Exchange.

Elements of Strength in Cotton-marketing Associations.—The cotton-marketing associations have several advantages in the handling of cotton.

[2] Section 12 of organization agreement of American Cotton Growers' Exchange.

TABLE XVII

Centralized Cotton Marketing Associations and Volume of Business in 1925–1926 *

Association	Year Organized	1925–1926	
		Bales	Value
Alabama Farm Bureau Cotton Association..	1922	106,591	$9,500,000
Arizona Pimacotton Growers..............	1921	16,457	2,212,602
Arkansas Cotton Growers' Cooperative Association..............................	1922	113,516	8,628,888
Arkansas Farmers Union Cotton Growers' Association..........................	1921	9,760	579,701
Georgia Cotton Growers' Cooperative Association..............................	1922	113,597	10,284,092
Illinois Cotton Growers' Cooperative Association..............................	1924	840	75,000
Louisiana Farm Bureau Cotton Growers' Cooperative Association.................	1923	51,186	4,515,980†
Staple Cotton Cooperative Association.....	1921	262,898	27,255,004
Mississippi Farm Bureau Cotton Association.	1923	42,551	3,915,000
Missouri Cotton Growers' Cooperative Association..............................	1923	12,318	936,273
North Carolina Cotton Growers' Cooperative Association..........................	1922	161,158	14,471,404
Oklahoma Cotton Growers' Association....	1921	206,318	17,934,520‡
South Carolina Cotton Growers' Cooperative Association..........................	1922	97,775	9,239,139
Tennessee Cotton Growers' Association.....	1923	33,063	2,800,000
Texas Farm Bureau Cotton Association....	1921	244,320§	23,812,190§
Total.............................		1,472,348	$136,159,793

* Elsworth, R. H. U. S. D. A. Technical Bulletin No. 40, p. 34.
† Exclusive of long-staple cotton.
‡ Basis, Galveston.
§ Auditor's report, August 31, 1926.

1. *Better Returns to Producers.*—There seems to be no question but that the associations have returned to the producer a larger share of the dollar paid by the spinner or exporter than was formerly returned through regular market organizations. The increased return is not due to the fact that they can handle cotton more cheaply than can the local buyer. In fact it probably costs them more to handle because of the elaborate system of bookkeeping employed. They carry the cotton nearer to the consumer than does the local dealer, thereby

eliminating market steps. They have a well-graded product to sell and are able to deliver it in any quantity required. They are not operating for profit. The consumer gets everything after selling and operating expense has been deducted.

2. *Assures Equality of Opportunity.*—The small producer is placed on an equality with the larger producer.

3. *Storage.*—An association can store a large quantity in bonded warehouses more advantageously than the same amount of cotton can be stored by individual growers.

4. *Decreased Credit Cost.*—The associations have been able to borrow money for advance payments at lower interest rates than it could be borrowed by individual growers.

5. *Reduction of Waste from Sampling.*—Under the system of selling to local buyers there was often waste from excessive sampling.

6. *Contracts with Growers.*—The growers and the associations agree to do specific things. Some of the associations have liberalized their original contracts by permitting withdrawals during a certain period of the year. Other new regulations provide for monthly and daily pools in addition to the seasonal pools, and give to the member the option of naming the time of settlement and base of settlement for the cotton that he delivers.

Elements of Weakness in the Cotton-marketing Associations.—The many cotton growers who have not joined an association mention various weaknesses.

1. *Long-time "Ironclad" Contract.*—The contract may be an element of weakness as well as an element of strength. In the form first adopted each contract was literally "the tie that binds." Such contracts were considered essential in maintaining loyalty among the members. In actual practice such contracts have incited anger and rebellion more often than they have aroused a sense of loyalty. Many men have refused to join an association that took absolute control of their most important crop for a five- or seven-year period.

2. *Hopes of Monopoly Control.*—Some of the men who assisted in organizing the cotton-marketing associations flaunted the possibility of the organization's securing monopoly control and setting a high price for cotton. Such talk tended to deter conservative men from allying themselves with the movement. Many of the men who joined in the belief that prices would be fixed were bitterly disappointed when they found that this could not be done. By promising too much and inciting false hopes, some of the early organizers weakened the associations.

3. *Speculative Tendencies.*—Holding a crop for a rise in price is a speculative act whether performed by the grower, a cooperative association, a dealer, or a professional speculator. The holding policy of at least some of the cotton associations has been influenced by the hope of a speculative rise in price. Holding part of a crop for the purpose of orderly marketing should not be confused with holding for speculation.

4. *Information Policy Sometimes Destructive Rather than Instructive.*—Too much attention was given in the early years of the associations to a discussion of the evils of market manipulation by speculators and too little attention to an analysis of market problems. Speculators were blamed for the drop in the price of the 1923 cotton crop between December and May. The fact is that supply and demand were the most important forces in fixing the price. "Even the most expert speculators are unable to overcome the laws of price. They succeed by knowing what the laws of trade are, and by obeying them."[3]

5. *Deferred Payments.*—Nearly all farmers prefer to receive their money when a crop is marketed. Often the money is needed for the payment of debts, and sometimes for the making of investments. So strong is the urge for ready money that many men prefer to take a somewhat lower price at time of delivery if payment is made in full than would probably be received if they accepted 60 per cent of the value at time of delivery and waited an indefinite period for the final payment.

6. *High Percentage of Tenancy Among Cotton Producers.*—Tenants as a class have less capital than landowners and therefore are usually in greater need of ready money. The deferred-payment plan of the yearly pools does not coincide with their financial needs. When a crop is produced on credit, the creditor usually demands payment without undue delay.

A tenant population is an unstable population. Either because he wishes or the landlord wills, the average tenant moves every few years. Sometimes he remains in the same neighborhood but often he goes farther away. It is difficult to transfer credit obligations from one community to another, and therefore the tenant desires to have his crop sold and debts paid before he moves to a new farm.

Many landlords oppose the cooperative associations. They want their money when the cotton is delivered. Unless the tenant is able to buy the landlord's share of the crop, he must therefore sell to someone who will make immediate payment. Some landlords refuse

[3] American Cooperative Journal, Vol. 19, No. 5, p. 20.

to rent to a tenant who is a member of a cotton-marketing association.

The Outlook.—Despite the fact that the membership of the associations decreased between 1925 and 1927, the outlook is more satisfactory than at any previous time. The members who dropped were discontented and therefore were a liability rather than an asset.

Fortunately for the associations, their volume of business was never large enough to permit either officials or members to believe that monopoly control had actually been attained. They have, therefore, had to concentrate their energies upon the economical handling of business, and this accounts quite largely for their success.

The liberalizing of the contracts of some of the associations will undoubtedly aid in maintaining the good will of the present members and prove of value in future membership campaigns. The Staple Cotton Cooperative Association, after two years' experience, stated that the adoption of a withdrawal privilege had proved to be a "successful experiment." Many members are pleased with the short-time pools permitted by some of the other associations. The changes in the contracts indicate that most of the associations have given up all idea of price fixing and are in a position to devote their energies to cooperative marketing.

The members of the associations have learned something of marketing and of the principles of cooperation. If enough men learn their lesson thoroughly we shall doubtless see a better agricultural system develop in the Cotton Belt. We may expect a higher degree of financial independence, a greater diversity of products, and a fuller realization that successful cooperative marketing depends primarily upon saving a part of the cost of handling.

The outlook for any cooperative association brightens when the members decide to put their trust in efficiency instead of in monopoly.

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CHAPTER XVI

TOBACCO

About one-half of the tobacco crop of the world is produced in the United States. Kentucky and North Carolina together produce more than the combined crop of all the other states. The reason for this concentration of production is that soil and climate have a great influence upon the quality of tobacco leaf; particular types are therefore grown mainly in certain well-defined areas. Each area confines itself largely, and sometimes entirely, to the production of a single variety or type of tobacco.

Burley tobacco is grown mainly in Kentucky, Tennessee, Indiana, Ohio, and West Virginia. The most important area centers at Lexington, Kentucky. Four kinds of dark tobacco, generally classed as export tobaccos, are produced in Kentucky and Tennessee. The district producing dark fire-cured tobacco is most important. Its product is marketed largely at Clarksville, Tennessee, Hopkinsville, Kentucky, and Paducah, Kentucky. The other districts are the Bowling Green (Kentucky), or "one sucker" district; the Henderson (Kentucky) district, and the Owensboro (Kentucky), or "Green River" district.

Bright or yellow tobacco is a manufacturing tobacco. It is grown mainly in Virginia, North Carolina, South Carolina, and Georgia. Cigar tobacco is grown principally in the Connecticut Valley, Wisconsin, Pennsylvania, New York, Ohio, and Florida.

Because of the large amount of hand labor required, tobacco is produced at a high cost per acre. It may be the dominant crop on a farm, so far as value is concerned, although exceeded in acreage by other crops. We almost invariably think of tobacco as the dominant crop in Kentucky although the acreage of tobacco in that state is only one-half the acreage of corn.

The producers of tobacco, like the producers of cotton, have suffered seriously at times from overproduction. The consumption of tobacco depends little upon price. Few consumers increase their use of tobacco because the price is low or decrease it because the price is high. Tobacco cannot be substituted for anything else and nothing

else can be substituted for tobacco. It is, therefore, impossible to dispose of a large tobacco crop in any other way than through established trade channels. It is not readily perishable, and in fact is improved by ageing. A large surplus may, therefore, be carried over to succeeding seasons, serving continually as a price deterrent.

The Tobacco Trusts.—During the trust-forming era in American industry, the number of firms manufacturing tobacco rapidly decreased, and the size of the firms remaining in business increased. The movement began about 1890; it ended in 1903 when The American Tobacco Company [1] absorbed its most important competitor.

In France, Spain, Italy, Japan, and several other foreign countries, tobacco is a government monopoly. The purchase of tobacco for each of these countries is therefore centered in one man. These various buyers naturally decided that tobacco could be purchased more cheaply if they worked together than if they continued in competition. The result was the formation of a buying organization known as the Regie. British buyers combined their buying power and worked in harmony with the Regie and The American Tobacco Company. Although collusion between the three buying interests was never proved, no active competition was apparent. The producers felt that they were at the mercy of a monopoly. The only persons offering bids in many localities were the agents of The American Tobacco Company, or companies which were said to be affiliated or subsidiary. The Trust apparently fixed the price.

Tobacco production was not particularly profitable during the major portion of the period when there was apparently competition between buyers. Following the formation of the American Tobacco Company in 1903, the price fell until many producers were compelled to sell tobacco at prices which returned them less than 30 cents a day for their labor. It was impossible to pay wages. Women and children were compelled from necessity to work in the fields. Debts increased and farms were mortgaged to meet current expenses. Wherever tobacco was the most important cash crop, as in the Burley and dark tobacco districts of Kentucky, there was poverty and distress.

Tobacco Growers Organize.—Under the leadership of the American Society of Equity, the Planters' Protective Association was formed by the growers of dark tobacco in the autumn of 1904. The Burley Tobacco Association was formed a little later. The object of the two associations was to secure a better price for tobacco. The

[1] The American Tobacco Company was divided into four companies (of which the American was one) in 1911, by a decision of the U. S. Supreme Court.

plan was to unite all growers, pool the product, and hold it until the buyers would pay the price set by the association. Dark tobacco was selling at 5 cents per pound when the organization was formed; the growers agreed to hold for 11 cents. Burley tobacco was quoted at 6½ cents, and the growers set 15 cents as their selling price. The organizations received encouragement from merchants, bankers, and the general public. A good price for tobacco means not only prosperity for the tobacco producer but prosperity for the entire region where tobacco is the dominant cash crop. Buyers were able to secure tobacco sufficient to supply all needs in 1906 without purchasing that controlled by the association. It was, therefore, carried over and the campaign for members continued. About one-third of the Burley and dark-leaf tobacco crops of 1907 were controlled by the associations, but the trust refused to buy. The growers who had two crops of tobacco for which there was no market faced a serious situation. Unless the tobacco could be sold at a fair price the majority of the members would be bankrupt. They decided to hold on for another year and restrict production. The Burley Association declared a complete cut-out of production for 1908; the Planters' Protective Association urged a reduction in acreage.

The Night Riders.—The efforts of the Associations to secure a higher price for tobacco in 1906 and 1907 were unintentionally frustrated by the men who would not become members, and insisted upon selling independently. Their crop was sufficient to supply the immediate demands of the manufacturers. Naturally the growers who considered their organization as an instrument for the common good bitterly resented the attitude of the men who refused to cooperate, but accepted the advanced price created by the withholding of Association tobacco from the market. The resentment of the Association members soon crystallized into a determination that the men whom they considered short-sighted and selfish should not be permitted to wreck the movement.

Membership at first was purely voluntary. Soon pressure was exerted. Association members were forbidden to extend to nonmembers such neighborly courtesies as "changing work." Professional men and mechanics were urged to refuse service to the "Hill Billies" (non-association members) and merchants were instructed not to sell them goods. As persuasion failed, more and more radical measures were used. When illegal measures came into use, they were naturally carried out under cover of darkness by men who did not wish their identity known. The Night Riders had developed. The

Planters' Protective Association disclaimed any responsibility for its existence, but the organization was made up of members in the Association.

The organization of the Night Riders was distinctly military. There were lieutenants, captains, and a general. Masks were always worn and sometimes gowns. At first warnings were sent to the "Hill Billies." If the warnings were ineffective, men were whipped. It was one man against a mob and the man was powerless. Several tobacco barns, various tobacco warehouses, and one small factory were burned in the autumn of 1905. The next year tobacco beds and fields were destroyed. Conditions grew more tense. The Night Riders let it be known that the tobacco which had been produced by non-members of the Association must not be marketed. If it were known that the men were planning to market in spite of the warnings given, their tobacco was likely to be destroyed even after it was harvested. Despite all that was done by the Night Riders, considerable tobacco was raised, cured, and marketed, in some localities. The next step of the Night Riders was to prevent such tobacco from entering into consumption. The measures which they used had but one object—to secure results.

Princeton, the county seat of Caldwell County, Kentucky, was invaded by a band of masked and robed men under arms, on Thanksgiving night, 1906. They placed mounted spies within the city and vedettes along all the highways so that no one might leave or enter. They took possession of telephones, telegraph, and railway communications as well as the police and fire departments. They burned freight cars loaded with tobacco belonging to the American Tobacco Company and others owned by independents. They destroyed barns containing 200,000 pounds of tobacco, entailing a loss for barns and tobacco of $100,000. They burned one warehouse with 6 acres of floor space, containing the biggest and best stemmery in the world.

Hopkinsville, the county seat of Christian County, is the natural center of the dark tobacco trade. Although warnings had been issued the mayor hesitated to call troops at the expense of the city. On the night of December 7, 1907, about 500 men came from four directions, mounted, masked, and armed. They seized telegraph office, telephone exchange, police headquarters, and the fire department. They destroyed by fire three factories and one large warehouse which contained little tobacco. The office of a newspaper which had opposed nightriding was wrecked. An independent tobacco buyer was whipped after he had refused to obey orders and leave town.

Somewhat similar conflicts occurred in other places. A large part

of Russelville was burned, entailing a loss of $100,000. In the river counties of Ohio, tobacco warehouses and plants were destroyed. At one time the north bank of the Ohio River was patrolled by armed guards for a distance of 80 miles.

The lawless and reckless element which is in existence in nearly every community found the Night Riders an excellent cloak for the commission of many acts of violence which had not the remotest connection with tobacco. Lawlessness breeds lawlessness. It was almost impossible to convict a man of nightriding, because alibis were easy to secure, and any jury was apt to contain either a night rider or someone who feared their anger.

It is probable that the leaders of the associations were never connected with the nightriders. They certainly denounced the resort to incendiarism, intimidation, and murder. It is doubtful if the actual membership ever exceeded 8000 or 9000 men although 28,000 or 30,000 was claimed. The majority of the active members were probably men who had strong passions but little education, and fell a ready prey to selfish politicians who denounced The Tobacco Trusts.

Result of the Work of the Night Riders.—The tobacco market was nearly destroyed in the localities where the Night Riders were most active. Large crops remained unsold. All markets, not simply that for tobacco, were paralyzed. The law in some places was almost wholly overthrown. The price of land decreased $10,000,000. Many of the best people wished to move to some place where life and property were safe. Up to February, 1908, the actual property loss was $50,000,000. It was necessary to keep militia in many places. Insurance contracts were canceled, and banks did not dare risk loaning money on unprotected property. As an aid to cooperation, to marketing, or community life, the Night Riders were an abject failure.

The Peaceful Riders by Day were organized when the public rebelled against Night Rider raids. They were commanded by one of the most influential planters of Kentucky. They went from farm to farm soliciting signatures to contracts not to raise tobacco in 1908 unless the trust should yield, and advising those who refused to sign not to market their product. The fear of the Night Riders and the desire to end further violence doubtless aided in the securing of signatures. The reduction of production for 1908 was assured.

The Trust Yields.—Early in 1908 it became evident that the effort to control production would be successful. In fact, less than 10 per cent of the usual acreage of Burley was grown, and the acreage of dark tobacco was greatly reduced. An agreement was reached

between the American Tobacco Company and the Burley Association early in the summer, whereby the pools of 1906 and 1907 were purchased at about double former prices. Soon afterwards the dark tobacco pools were sold for about 8 cents per pound.

The Fruits of Victory.—Although the associations sold their tobacco at a good price, the victory was achieved at too great a cost to make a repetition desirable. It was very evident that the association could not have any influence upon price unless production could be controlled, and that production could not be controlled without violence. The state government was taking a strong stand for law enforcement and the court dockets of several counties were crowded with damage suits and prosecutions. Even if production could be controlled in some one area there was the imminent possibility that it would be so increased in other distant areas that there would be no deficit. Only a relatively small amount of tobacco was pledged in 1909, and this was released before it was ready for market. Few growers really believed that the high price secured for the crops of 1906 and 1907 repaid them for the reign of terror through which the state had passed. One such experiment was enough.

A Change in Marketing Methods.—The early method of marketing tobacco was to prize it into hogsheads and ship it to some central tobacco market to be sold at auction.

"According to this method, which is still followed to some extent, each hogshead is opened and broken and official samples removed and placed on top and the bidding is done on these samples." [2]

"The second system to develop was that of a sale in the barn to the buyers of tobacco manufacturers or to speculators. This method at first found favor with the farmers since it eliminated the work of hogsheading and the expense attached to shipping and selling at the auction market. The tobacco was either bought by grades or a straight bid for the run of the crop, if not stripped out. While this method was thought by some to present certain advantages over the hogshead marketing it was susceptible of abuse. Under such a system it would not be surprising if a not over scrupulous manufacturer's agent or speculative buyer were able to buy tobacco at less than its actual worth, due to lack of market knowledge on the part of the farmers, or if certain buyers were to practically eliminate competition by refusing to bid against each other." [3]

[2] Bohannan, Charles D. and Campbell, D. D. Bulletin 202, Kentucky Experiment Station, p. 194.

[3] Bohannan, Charles D. and Campbell, D. D. Bulletin 202, Kentucky Experiment Station, pp. 195–196.

Sale by loose-leaf auction was the prevailing method of marketing tobacco in many districts even before the inception of the associations in Kentucky. It developed rapidly in the Burley districts after the decline of the pooling movement, and after the Night Rider period to a less extent in the dark-tobacco district.

"The tobacco is delivered by the grower to loose-leaf warehouses where it is packed in baskets which are arranged in rows on the warehouse floor. The auctioneer and the buyers move rapidly from pile to pile in the row and from one row to the next until the sale in one warehouse is completed, when they will go to another. Lexington, Kentucky, has been the largest loose-leaf market and during the season sales have been conducted at several different houses at the same time in this market. The sale is very rapid, three hundred or more baskets an hour sometimes being sold. The grower, who stands by watching the progress of the sale, frequently feels helpless. True, he has an opportunity to reject an unsatisfactory offer but has no assurance of a better price the next time his tobacco is offered for sale."[4]

The uninitiated can hardly comprehend how an auctioneer can sell a minimum of 240 lots of tobacco in an hour and give the buyers any opportunity of determining the actual value of the pile or basket upon which they bid. The element of chance must certainly be large when buyers will grade and price from as few as 4 to as many as 15 piles of tobacco in one minute. The story is vouched for, that one grower, after having his tobacco graded and priced, moved it to another part of the warehouse unseen by the buyers and had it priced again. He did this several times and through their superficial grading it sold all the way from 8 to 28 cents. One buyer more than doubled a price which he had quoted earlier the same morning. Such variations are, of course, exceptional, yet chance must certainly play an important part in determining price when an ungraded product is inspected and sold so rapidly.

Production, Prices, and the Producer.—The high price obtained for tobacco in 1906, 1907, and 1908 stimulated production. The 1910 acreage and crop exceeded that of any previous year. The price, however, did not reach the low level of former years. This was probably due in part to the change in the system of marketing but also in part to the action of the Federal Government in pressing a suit against the American Tobacco Company. An increase in export demand doubtless had some influence. The American Tobacco Company

[4] Jesness, O. B. The Cooperative Marketing of Farm Products, p. 123.

was declared a corporation in restraint of trade and dissolved in 1911. This action possibly increased competition. Probably the most effective factor was a gradual rise in the general price level.

This rise in prices did not help the producer of tobacco. While he received a little more money for his crop, the things which he purchased cost more, so that his real purchasing power remained at a low level. The average income of the tenant farmer in the Tobacco Belt for the five years preceding 1916 was only $310 per year. This meant hard times. Too often it meant no shoes for the children and a diet of "corn pone and 'lasses."

The small tenant tobacco farmer, through a generation or two, had become fairly used to his condition. He was sufficiently educated down to his position in the proletariat to recognize his place among the "poor whites" and was surprisingly satisfied in his pitiful narrow sphere. Then came the good prices for tobacco in 1916 and 1917 which permitted the purchase of many comforts; the high prices of 1918 and 1919 brought almost undreamed of wealth. The "silk shirt era" brought some of these farmers Fords, phonographs, and player pianos—too often purchased on the installment plan. They bought refrigerators, ice, fresh meat, and shipped-in fruits. More clothing and better clothing was purchased than ever before.

Besides all this they borrowed money—all they could get—to put in a big crop in 1920 to get more money. The crop that year cost them 16 cents a pound, but when the warehouses opened in the winter the buyers offered only 10 cents. There was imminent ruin for the farmers and for their hosts of creditors.

Two primary reasons may be given for the price drop—the great increase in production and the beginning of the post-war deflation. The average production of tobacco for the five years 1910–14, inclusive, was 991,958,000 pounds; in 1920 it was 1,582,225,000 pounds, an increase of nearly 60 per cent.

The war increased consumption. The tobacco companies performed their part cleverly. A host of sympathetic, palpitating, well-meaning ladies, who wanted to do something for their country but who were a little lacking in that mental poise which would have started them upon something useful, helped to make tobacco seem a necessary part of military equipment. Demand increased price, and price increased production. Tobacco must be aged by holding it in storage for from two to three years before it is suitable for manufacture. Someone must anticipate future demand and hold it during this period. Optimistic manufacturers and speculators who had pur-

chased the large 1919 crop at a high price and who held it in storage with a very considerable part of the 1918 crop lost some of their confidence when once the financial depression was well under way, and became more interested in trimming sails to meet the financial storm than in piling up additional stores of tobacco. Everyone knew that the 1920 crop was large. The banks were more concerned over collecting the loans placed on tobacco in previous years than in financing the holding of a new crop. It is little wonder that buyers were few and that the price they offered was low. What happened was in exact accordance with economic laws, but the producers knew little of economics and were principally interested in obtaining a price for their crop that would pay cost of production and leave a comfortable profit.

The low price affected not only the man who grew the tobacco but every man of whom he had obtained credit, every merchant of whom he might buy goods, and every mechanic whom he might employ. Many influential men, including a millionaire newspaper publisher, investigated conditions and sought a way out. Stories of how the raisin and prune growers of California had been able to "fix prices" had been widely heralded. If there could be "a mouth for every prune" why should there not also be a consumer for every pound of tobacco at a satisfactory price? Men believe most willingly what they wish to believe. The way was open—not only for cooperative marketing—but for an attempt at monopoly.

The Burley Tobacco Growers' Cooperative Association.—The preliminary meeting of the Burley tobacco growers to discuss cooperative marketing was held at Louisville, Kentucky, March 28, 1921. A committee of organization was appointed at this meeting, and a little more than two months later, June 4, the campaign for membership began. Within six months, 55,716 five-year contracts had been signed. This included about 75 per cent of the growers of Burley tobacco and about 70 per cent of the acreage. Other growers signed before the tobacco was marketed.

The Burley Tobacco Growers' Cooperative Association was organized on the non-stock non-profit plan. Each of the original members signed a contract giving to the association the sole power to sell all the tobacco which he produced for the five-year period 1922–26, and paid a membership fee of $5.

The grower was paid a part of the value of his tobacco at the time it was delivered to the association. Funds for this purpose were borrowed, the tobacco being used as security. Final payment was

made when any pool was closed. At first difficulty was experienced in securing funds, but private capitalists came to the rescue, and later loans were secured from the war finance corporation and other sources.

One of the obstacles that the association faced was that there were no established grades for tobacco. It was, therefore, necessary to work out a system of grading before tobacco could be accepted. The classification adopted contains fifty-two grades. It was satisfactory and is now in general use. This establishing of definite grades and standards will always stand out as one of the big things accomplished by the association.

In the summer and autumn of 1927 the association conducted a campaign for the renewal of membership contracts. It failed to secure the signatures of growers controlling 75 per cent of the Burley acreage before the fifteenth of November and as a result did not open pools for the 1927 tobacco crop. Instead it operated an auction without pooling. Early in 1928, it was reported that the pools of former years were being closed as rapidly as satisfactory sales could be made.

Tobacco Growers' Cooperative Association.—This organization was formed in January, 1922, by tobacco growers of Virginia, North Carolina, and South Carolina. It had at that time about 75,000 signed contracts, and started out with the apparent assurance of a large and increasing volume of business. Its subsequent history is in part a matter of Government record.

In 1925 the Federal Trade Commission was asked to investigate allegations that large tobacco companies were conducting a fight against cooperative tobacco associations. The report of the Commission was submitted to the President, December 23, 1925. The investigation showed that the claim was unfounded, but that there was considerable dissatisfaction among the members of the Tobacco Growers' Association. "The tendency of members to violate their contracts and to divert in one way or another to the auction market tobacco pledged to the pool increased steadily through the three years. In 1922 the association received 35 per cent of the total production of the Bright Southern, Virginia Dark, and Virginia Suncured types; of the 1923 crop it received 28 per cent, and of the 1924 crop 23 per cent."

The Federal Trade Commission found that one important cause of the difficulties of the association "manifestly lies in its merchandising and operating methods." To certain groups of tobacco manu-

facturers "this association sold in the green state only 19 per cent of its 1924 deliveries as compared with 65 per cent in 1922. Exporters and dealers who purchased in the green state over 56 million pounds of the Association's 1922 crop and 28 million pounds of its 1923 crop, in 1924 bought only a little more than 2 million pounds or about 2 per cent of its total receipts of that year.

"This failure to sell in the green state a larger proportion of its 1924 deliveries to exporters and dealers was obviously designed by the Association management to exclude such customers and purchasers of its green tobacco. Instead of holding or increasing its large clientèle of buyers who purchased in the green state more than half of the Association's first-year deliveries, its officers later began an arbitrary policy of restraint and exclusion which reached its climax in 1924. . . .

"Of its total receipts of tobacco, the association the first year redried only 31 per cent; of its 1923 crop it redried 64 per cent, and of its 1924 deliveries 75 per cent was sent to redriers.

"It does not appear that the growers benefited by diversion of the larger proportions of the 1923 and 1924 crops from green sales to redrying and storage plants. The marketing of a larger part of their tobacco in the green state would doubtless have made possible larger and more prompt cash payments to members and obviated much of the cause for complaint, contract breaking, and non-delivery to the pool. The financial records of the association show that the total cost of redrying tobacco, including carrying charges to May 31, 1925, was $4,332,578.95 on the 1923 crop and $2,843,918.98 on the 1924 crop, and that the net average return per pound to growers was substantially larger on the parts of the 1923 and the 1924 crops which were sold green than on the parts which were marketed in redried order. Furthermore, the association had on hand unsold on May 31, 1925, 80,728,823 pounds of tobacco." [5]

One of the surprising features of the investigation was the number of concerns engaged in redrying tobacco for the Tobacco Growers' Cooperative Association in 1922–24, in which association officials or employees were financially interested. The Commission found that at least twenty-seven officials were deriving profits in addition to their salaries from a number of plants engaged in redrying association tobacco. One employee whose salary was $30,000 per year apparently made in two years a side profit of $70,318.47 out of redrying the Association tobacco. Apparently some of the officials and employees fared better than did the grower members.

A receivership for the Tobacco Growers' Cooperative was decreed

[5] Senate Document No. 34, 69th Congress, 1st Session, pp. 8 and 9.

in June, 1926, and shortly afterward the receiver began to straighten out the tangled affairs of the Association. His story of the underlying causes of the trouble is of interest to all those who are willing to learn from the mistakes of others.

"Now for the coroner's story. Ninety thousand farmers in 1922, after stirring meetings, evangelistic orations, and high-pressure promoters' canvasses signed a marketing agreement for their tobacco production. The sign-up was 65 per cent of the acreage of these types. Most of them in the enthusiasm of that year undoubtedly believed that these marketing agreements assured them economic independence. Unfortunately for them, the Association management shared too much of this optimism. . . .

"The management's first great blunder was the source of most of its later difficulties. They assumed they had *market control.* Resting upon this assumption, they spent a total of $3,062,298.29 for the purchase of warehouses.

"With real contract control, they could as readily have leased their warehousing requirements. If their paper control proved an actual one in practice, they could have named their own purchase prices at the expiration of the leases. If their venture did not prove successful, they would have saved enormous capital expenses. As it was, they organized five warehousing corporations, officered by separate boards and other personnel, and bought warehouses at such extravagant prices that the sales of these properties to date have netted the receivers only about 37 per cent of the purchase prices.

"There never should have been more than one warehousing corporation. Direct saving in operating expense would have been great and the intricate legal questions arising out of the relations of these corporations to each other and to the parent corporation would have been avoided.

"The assumption of market control was also responsible for other blunders. 'If,' it was reasoned, 'we control the market, overhead costs are unimportant, for we shall add a few cents to the price we will force the consumer to pay.' They therefore built a payroll disproportionate to the Association requirements. In the period from February 8, 1922, to May 31, 1925, covered by the report of the Federal Trade Commission, they expended for the three general classifications the following amounts:

Overhead	$8,214,545.89
Redrying	9,586,797.25
Carrying charges	2,209,942.46

The total sales during this period were $98,186,272.70; and the total of expenses, $20,011,285.60. This sentence tells the whole story. Giving due credit for the redrying expense upon the tobacco inventory not sold during that period, unpardonable extravagance or stupid

management are obvious. Relation of expense to sales is a variable quantity. Relatively high overheads may be justified in some commodities, but no such ratio as prevailed in this association has a shadow of justification in the marketing of tobacco.

"The market control theory caused them to refuse to sell tobacco at good prices, which tobacco was carried for years with its interest and storage burdens, into the receivership itself. It also afforded a plausible pretext for the refusal of certain association officers to sell tobacco in the green state that they might profit through redrying in their own companies.

"There is some measure of excuse for expense errors in the first year of operation, for they were justified in relying upon the control represented by the majority sign-up. But there was no such justification in later years. For example, the association delivery of the 1925 crop was only 15.11 per cent of the entire crop. Yet the payroll for the first three months in 1926 was as follows:

January	$93,454.21
February	92,640.94
March	76,752.59

"Competent business leadership would have adjusted receipts and expenses to a sound business ratio.

"I now come to an error which is all too common in American cooperative marketing—the failure to shorten the route between producer and consumer. . . . Much of the tobacco must be sold abroad. The Association depended almost entirely upon sales to American dealers to supply the foreign trade. These dealers allowed the Association to pay interest, storage, and other carrying charges, kept tab on the Association stocks, and bought from it only when they could not procure their requirements elsewhere.

"The Association should have established its own European sales organization. Price then as now is the controlling factor in Europe. With the American dealers' profit for a margin for European sales, every pound of the foreign types could have been sold at a fair price and before the accumulation of great carrying charges."[6]

The history of the Tobacco Growers' Cooperative Association can hardly be construed as a particularly favorable argument for the strongly centralized type of cooperative organization which places great reliance upon market control, grower contracts, and a pooling policy. Other factors would seem to be much more essential to the success of cooperative marketing associations.

The Dark Tobacco Growers' Cooperative Association.—This Association was organized in 1922 on a plan very similar to that adopted

[6] Corey, Merton L. A Receiver's Post-Mortem. The Cooperative Marketing Journal, January, 1928, pp. 10, 11, and 12.

by the Burley growers. It pledged 58,000 members in the western parts of Kentucky and Tennessee, representing about 65 per cent of all the dark tobacco grown in the United States. Headquarters were located at Hopkinsville, Kentucky.

The Association was an important factor in the marketing of dark tobacco for about four years. Its membership contract was upheld by the Supreme Court of the State of Tennessee, but in spite of the active prosecution of many contract violators tobacco deliveries decreased. The dissatisfaction of the members was due to several causes, of which the most important was doubtless the delay in closing the pools and making payment for the tobacco.

The board of directors on October 13, 1925, adopted a resolution permitting the members to sell their 1925 tobacco outside of the Association. The members were urged to abide by their contracts but were assured that no legal action would be taken against them if they preferred to sell elsewhere. The waiver of the delivery clause of the contract applied only to the 1925 crop. Compulsory delivery of the 1926 crop was later waived, but receiving stations were open for the receipt of such tobacco as the members wished to deliver.

Present Status of the Cooperative Marketing of Tobacco.—The development of the cooperative marketing of tobacco was very rapid from 1920 to 1923, but the percentage of the 1924 crop delivered to cooperative associations was somewhat smaller than for the two preceding years. The figures for seven years are given in the following table:

TABLE XVIII

TOBACCO PRODUCED IN THE UNITED STATES AND DELIVERED TO COOPERATIVE ASSOCIATIONS, 1920–1924 *

Season	Tobacco Produced in United States Pounds	Tobacco Received by Associations	
		Pounds	Per Cent
1920–1921	1,582,225,000	6,533,100	0.4
1921–1922	1,069,693,000	128,003,213	12.0
1922–1923	1,246,837,000	602,643,756	48.3
1923–1924	1,515,110,000	699,421,889	46.1
1924–1925	1,251,343,000	466,852,000	37.5
1925–1926	1,376,628,000	281,639,000	20.5
1926–1927	1,297,889,000	228,725,000	17.3

* Agricultural Cooperation, Vol. III, No. 20, p. 409, and Senate Document No. 95, 70th Congress, 1st Session, p. 203.

The membership of the more important associations in 1925 was as follows:

TABLE XIX

MEMBERSHIP OF TOBACCO MARKETING ASSOCIATIONS *

Association	Year Organized	Number of Members, 1925
Maryland Tobacco Growers' Association, Baltimore, Md.	1920	4,600
Burley Tobacco Growers' Cooperative Association, Lexington, Ky.	1921	108,300
Tobacco Growers' Cooperative Association (of Virginia, North Carolina and South Carolina), Raleigh, N. C.	1922	97,500
Dark Tobacco Growers' Cooperative Association, Hopkinsville, Ky.	1922	71,000
Connecticut Valley Tobacco Association, Hartford, Conn.	1922	4,200
Northern Wisconsin Cooperative Tobacco Pool, Madison, Wis.	1922	7,800
Miami Valley Tobacco Growers' Association, Dayton, Ohio.	1923	4,900
Total		298,300

* Agricultural Cooperation, Vol. III, No. 20, p. 410.

These seven associations probably handled at least 98 per cent of the tobacco marketed cooperatively in the United States from 1922 to 1926, inclusive. Only three of them were active in handling the 1927 crop. The Maryland and Wisconsin associations handled about the same volume of business as in previous years. The Wisconsin association closed a successful membership campaign in April, 1927. The Burley Association, as has been stated previously, had difficulty in securing signatures to its new contracts and as a result operated an auction market.

The present status (1928) of the tobacco cooperative marketing associations is a disappointment to the friends of the cooperative movement. The organizations apparently rose from necessity as did many other cooperatives. They filled a real need in our marketing system. Why did they decline in importance while other cooperatives were growing in power?

Elements of Strength Possessed by the Tobacco Marketing Associations.—1. *Volume of Business.*—The associations had a large vol-

ume of business, and volume gives an opportunity for reducing the cost of handling.

2. *Direct Sale.*—The associations were in a position to deal directly with manufacturers and with foreign buyers. The shortening of the market route is ordinarily good economy.

3. *Membership Contracts.*—Each association had a definite contract with its members.

4. *Tobacco Grades.*—The establishment of tobacco grades was a forward step in marketing which in itself was sufficient to justify the forming of an organization.

5. *Equalization of Opportunity.*—The member who had a small crop and who knew little of the value of his product had assurance that he would receive the same price for his product, grade for grade, as the member who had a large crop and a good knowledge of tobacco prices, grades, and markets.

6. *Favorable Attitude of Public.*—Nearly everyone who lived in the tobacco-producing country was dissatisfied with tobacco marketing conditions at the time the cooperative associations were organized. Bankers, merchants, mechanics, editors, and professional men hoped that the producers would succeed in their marketing program. No one opposed them except the tobacco dealers.

Elements of Weakness in the Tobacco Marketing Associations.—1. *Belief in Price Fixing.*—Many of the officers and directors of the associations that are no longer operating actively believed that it was possible to establish monopoly control. In fact, many of the growers joined the associations under the impression that high prices would be fixed rather than because of confidence in the ability of a cooperative to effect economies in marketing with a resultant savings to the individual members.

2. *Delayed Payments.*—Because the officials believed that they controlled the market they were slow to sell. In the meantime storage costs and interest charges accumulated while the growers waited for money with which to pay accounts and notes long past due.

But few of the 1922 pools were closed until the spring of 1924. The Burley Association did not make its final payment of approximately $6,000,000 on the 1923 crop until December, 1927.

3. *Large Tobacco Production.*—The widespread belief that the producers of raisins and prunes had been able to "fix prices" and that the producers of tobacco could do as well undoubtedly stimulated tobacco production and made the marketing of the crop more difficult. Every crop from 1922 to 1927, inclusive, was larger than

any crop preceding 1917, and the 1923 crop was larger than any preceding crop except 1920. In spite of increased consumption, supply has kept well ahead of demand.

4. *High Overhead.*—It is easy for an organization to increase the overhead expense by performing too many services or dividing the work among too many persons or by paying too high salaries. There has been some complaint that this thing happened in some of the tobacco-marketing associations. As a result of criticisms and a desire to improve, at least one of the associations adopted a change of policy.

"In accordance with its recently adopted policy of retrenchment, the Dark Tobacco Growers' Cooperative Association, Hopkinsville, Kentucky, has cut approximately $65,000 from the salaries of its chief officials and proposes to make drastic changes in the salaries of minor officials also. A number of positions were eliminated, among them being those of associate director of warehouses, assistant director of warehouses, and five supervisors of warehouses. The offices of secretary and treasurer were combined and the salary made $6000 as against $17,000 for the two offices last year. The salary of general manager was reduced from $25,000 to $18,000, and many other cuts were made. One new position was created, that of assistant sales manager for all air-cured types of tobacco. A further survey is to be made to find where expenses may be reduced and efficiency increased." [7]

5. *Inefficient Management.*—Not all the associations had efficient management. The inefficiency was due in part to a belief in the ability to control the tobacco market. The Tobacco Growers' Cooperative Association, previously discussed, was particularly unfortunate in its management.

6. *Failure to Keep Members Informed Helped to Create Lack of Confidence.*—It is usually better for a cooperative association to keep members informed of losses, of salary increases, and other things affecting the welfare and conduct of the company than for the members to learn of them through other sources or after a considerable lapse of time. Members are apt to become suspicious and resentful when they think that something affecting their interests has been kept from them intentionally.

About two years after the Burley Tobacco Association had been organized the members heard a report that a single attorney had been paid $36,000 for his fee in writing the Articles of Incorporation and the contracts and giving some assistance in the early organization of the company. For his assistance in organizing the subsidiary ware-

[7] Agricultural Cooperation, Vol. I, No. 22, October 22, 1923.

house corporation, he was reported to have received a fee of $16,000. It was also reported that for about three weeks' work in assisting the Dark Tobacco Association the same man received $30,000. Such fees may not look large to men accustomed to corporation finance, but they look big to men whose net income has seldom exceeded $1000 a year and often has been less than half of that amount. To find out about such expenditures long after they occurred does not beget confidence.

7. *Too Much Reliance Placed on Contract and Pooling Plan.*—Many of the officials of some of the associations apparently believed that the contracts assured them that all tobacco grown by the members would be delivered for a period of five years. In spite of the fact that the contracts were legal and enforceable, deliveries decreased. It was not possible to discover all the evasions practiced or to bring suit against each member who delivered his crop to tobacco buyers. The members were quick to discover that pooling contained no magic. Something else was needed in order to make cooperation a success.

The Outlook.—The decrease in the cooperative marketing of tobacco between 1924 and 1928 should not be accepted as proof that the principles of cooperation cannot be applied to the marketing of tobacco. It may be evidence that these principles have not been successfully applied. Possibly monopoly has obscured cooperation. As the producers of tobacco study the plan of organization and methods of operation of such successful cooperative organizations as the California Fruit Growers' Exchange and nearly all our farmer-owned elevators, creameries, and cheese factories, they will doubtless decide that true cooperation is worthy of a trial. They are in a position to profit from past experience and to build on well-established cooperative principles a group of new organizations which will handle tobacco more efficiently than it is being handled by existing marketing agencies.

SUGGESTED READINGS

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CHAPTER XVII

COOPERATION IN DENMARK

The cooperative method of transacting business has been developed to a greater extent in Denmark than in any other country in the world. Farm products are marketed cooperatively; feeds and other supplies are purchased cooperatively; loans are secured from cooperative banks; cows are tested by cooperative associations; and cooperative livestock breeding is widely practiced. Cooperation has developed locally in the United States along various lines, but large areas are as yet but lightly touched by the cooperative movement. Even in those sections where cooperation has proved a success in some particular line, as in the marketing of grain or citrus fruits, it has not become the common form of organization for other business ventures. Few Americans are members of more than one cooperative association, and fewer yet of more than two or three associations. It is not at all unusual for a Danish farmer to be a member of eight or ten cooperative associations. Their success has been so pre-eminent and their influence upon the life of the people so marked that a discussion of their work and form of organization naturally precedes a discussion of the cooperative marketing of livestock products in the United States.

Conditions in Denmark about 1870.—In 1864 Prussian armies defeated Denmark and took from her two of her richest provinces, Slesvig and Holstein. The future outlook for Denmark was far from bright. Her remaining land area was small, only 15,586 square miles. This is about one-fifth the size of Nebraska or a little more than twice the area of New Jersey. The soil of the major portion of the country was not naturally fertile, much of it being thin and sandy. There were no mineral resources, so that most lines of industrial development were seriously handicapped. Denmark had been heavily in debt for years and this debt had been increased by the war. Fishing was good during a part of the year, but that industry would not support the entire nation. The land and other wealth was largely

was also "Danish butter." Even the high-quality butter was not of a uniform grade, as there were slight variations in color, texture, water content, and salt content. If the producers were to meet the market demand to the best advantage, it was necessary to market butter of a uniform grade in large quantities, rather than batches of ungraded butter.

In order to meet the demand for standardized products the Danish farmers found it necessary to cooperate. In 1882 a few farmers founded the first cooperative dairy society and built the first cooperative creamery. This first creamery was a success. It provided an economical basis for assembling the entire milk production of a community and manufacturing it into a standardized high-quality product that could be effectively merchandized at minimum costs. Other communities were quick to utilize this new plan. In 1900 there were more than 900 cooperative creameries, and in 1923 there were 1335.

"In the cooperative creamery in Denmark the whole milk is delivered direct to the creamery where the milk is separated; the cream is retained and manufactured into butter and the skim milk is returned to the farm. Each creamery has a membership of approximately 150 farmers who deliver direct to the plant the milk from 800 to 1000 cows. Transportation of the milk is a small item of expense. Nearly 90 per cent of the total milk production in the country goes to the cooperative creameries; a large part of the remaining 10 per cent going to private creameries is used to supply the city milk trade.

"Ninety-five per cent of the total quantity of sweet milk delivered to the cooperative creameries is manufactured into a standardized grade of butter of which more than 80 per cent is equivalent to 92 score or better. More than 90 per cent of the skim milk is returned to the farmers *via* the milk wagons that collect the whole milk on the different routes, the skim milk providing the principal feed for the Danish bacon industry."[1]

The creameries are all cooperative in principle. Among the more common provisions are the following.

1. One-man, one-vote.

In a few associations the vote is in accordance with the number of producing cows, or, as the Danes say, "The cows vote." This plan was very generally followed in the earlier years but has now practically disappeared.

[1] Christensen, Chris. L. Cooperative Marketing in Denmark. Press Circular, U. S. D. A.

2. No shares of stock are issued, simply certificates of membership.

When a creamery company is organized the necessary capital is secured from a savings bank. Working capital is usually raised by a loan executed by the association, for which the members are jointly liable, having pledged their personal credit. Sometimes each member furnishes a given amount of cash or credit for each cow which he milks. The gradual repayment of the loan to the savings bank is taken care of in the same way as the current operating expenses. The ordinary plan is to pay it in ten years, although a longer period is sometimes required. When it is repaid a new loan is made, the money received being handed over to the original members. The new loan is paid off in the same way as the first loan. This process of borrowing money and repaying it by installments is repeated indefinitely. In the long run it is about equivalent to our common practice by which the members purchase shares of stock and receive a nominal rate of interest upon their invested capital.

3. The proceeds are divided in proportion to the amount of milk delivered.

A partial payment is made to each farmer, usually once or twice each month, for the milk which he delivers. Deductions are made for the skim milk or buttermilk which the farmer has received from the creamery. A fixed deduction is also made to cover operating costs. In order to guard against possible loss this deduction is usually so large that a considerable sum remains in the operating fund at the time of final settlement, which is usually for a period of either six or twelve months. This sum is divided among the members in proportion to the milk furnished by each. It really corresponds quite closely to the patronage dividends paid by our farmer elevator companies, but is generally recognized for what it is—a final payment for the product sold, whereas too often our farmers think of their patronage dividend as a profit.

4. Each member signs a contract, binding himself to deliver to his association for a certain period, usually ten years, all the milk that he may produce, except that needed in the home.

This feature of their plan is their one important contribution to cooperation. It is a distinct addition to the principles of the Rochdale Pioneers. It has worked well in Denmark and has been followed by many cooperative organizations in the United States.

5. All members are jointly and severally liable.

Americans usually object to unlimited liability. The Danes became accustomed to this system through their cooperative loan associations. It enables them to secure loans at a lower rate of interest than would otherwise be possible.

6. Membership is open to all producers.
7. The annual meeting is the supreme authority in the affairs of the association.
8. The supervision and management of the association is performed by a board of directors elected by the members. They employ a technically trained manager to take care of the actual plant operation and daily business management.

Federations and Export Associations.—"In the early days of the cooperative creamery, each plant sold its product to private butter merchants in Denmark, who in turn disposed of the butter to wholesalers and jobbers in Denmark and to British buyers in England. To bring about greater efficiency in marketing channels and to eliminate waste in marketing, a number of creameries formed a federation in 1889 to sell the butter direct to wholesalers. This federation failed in 1908 through inefficient management and an organization plan that was not cooperative. Meantime two cooperative export butter associations had been formed in 1895, each drawing its membership from a number of cooperative creameries in a definite territory surrounding its headquarters, rather than extending its activities over the whole country. There are now (1922) in Denmark eleven cooperative export associations in which 546 cooperative creameries have membership.

"These export associations handle approximately one-third the total butter export, about one-third of the butter exported being bought in Denmark direct from individual cooperative creameries by English wholesale houses which maintain purchasing representatives and operate purchasing depots in Denmark, the remaining third being bought by Danish butter merchants who supply the home trade and export butter to foreign countries. Each creamery in an export association agrees to deliver its total butter production to the association for one or two years, thus assuring the association a regular supply.

"The capital required to equip and operate the export association is supplied by a loan guaranteed jointly by the local creameries, the liability of each creamery usually being limited to a definite figure. The export association is managed by an experienced butter merchant appointed by a board of directors composed of five members elected by the membership creameries.

"All the cooperative creameries, together with many private creameries, are also federated into a national federation of Danish

creameries, known as the National Federation of Danish Creameries, to promote matters of common interest such as proper legislation affecting the creameries and the dairy industry, and to study production and marketing problems at home and abroad. The Federation also cooperates with the butter trade in operating what is known as the "Copenhagen Butter Quotation" which establishes the basis on which the creameries shall be paid for their butter each week. One-half the membership of the committee that fixes the butter quotation is made up of producers, and the other half of private merchants."[2]

The Lur Brand.—In 1900 some of the creameries founded an association which adopted "Lur Brand" as a trade mark for the butter exported by its members. Within a few years all the creameries entered the association and adopted the Lur Brand trade mark.

"Lur Brand" is now established as a national trade mark and helps protect Danish butter from unfair competition. Any butter marked with this brand is manufactured under Government supervision and must meet the following requirements:

1. It must be prepared from pasteurized cream, which has been heated to a temperature of not less than 176° Fahrenheit.
2. It must not contain more than 16 per cent of water.
3. It must contain no other preservatives than common salt.

All creameries are under Government supervision and whenever requested must send a cask of butter to the State Experiment Station at Copenhagen.

The butter is kept in the laboratory until such time as it would normally have reached the purchaser abroad. It is then opened and judged. If the quality is not up to the standard another cask is sent for, and if this is not up to the standard the creamery loses the right to use the Lur Brand. In this way it is possible to control the quality of butter that receives the Lur Brand mark and can be exported. That other countries appreciate the quality of Danish butter is indicated by the large exports, which in 1926 reached a total of 292,000,000 pounds.

Bacon Factories.—Denmark produces bacon primarily because hogs utilize skim milk efficiently. A very considerable part of the grain fed to hogs is imported from the United States and other countries. In order to compete successfully in the English market

[2] Christensen, Chris L. Cooperative Marketing in Denmark. Press Circular, U. S. D. A.

with bacon produced in the United States where grains are cheaper, the Danes must produce a superior product and handle it efficiently.

The type of hog raised and the large amount of milk fed in proportion to the amount of grain combine in the production of an animal that contains a much higher percentage of lean meat than do most Corn Belt hogs. In the United States the heavy marketings of hogs are in the months of December, January, and February. The economic utilization of skim milk, as well as market demands, practically compel the Danes to distribute their pork production and marketing fairly equally throughout the year.

"More than 85 per cent of the total number of pigs annually slaughtered in Denmark are slaughtered in the cooperative bacon plants and the bacon is given a light cure. The cured bacon is sent direct to England where the bulk goes direct to the wholesalers and is smoked, and then distributed to the retailers. These cooperative bacon factories as well as the private plants are about evenly distributed throughout the country, each factory drawing its supplies from about 3600 farmers. Most of the pigs delivered to the cooperative plants are hauled direct in wagons or trucks, thus eliminating shrinkage in transit and losses in yards. The hogs are slaughtered the same day they are received.

"The bacon plant associations are organized on a plan similar to that of the creameries, necessary capital to build and operate each plant being provided by loans executed by the association and guaranteed by the members.

"The membership territory in each plant is divided into five, six, or seven districts, the members in each district assuming the obligation for their portion of the loans made by the association. Each member agrees to deliver his total pig production to the factory for a definite period of five, seven, or ten years. At the time the pigs are delivered the farmer receives a partial payment on the basis of a "hog quotation" fixed by the bacon factories in a designated province. This payment is made on the basis of slaughtered weight and quality classification, the slaughtered weight being approximately 75 per cent of the live weight. The associations operate an annual pool, and at the end of the year the balance between the price paid the farmers upon delivery and the sales price less cost is credited to the farmers' accounts.

"The Danes have learned that the highest quality of bacon comes from a pig which in live weight tops the scales around 200 pounds. The hog must weigh, slaughtered, between 132 and 165 pounds. A deduction of 1 cent per pound on the total weight is made on hogs weighing over 165 pounds slaughtered or under 132 pounds, 2 cents per pound being deducted on hogs that are 20 pounds or more over or under weight. Thus the farmers are compelled to deliver a uniform hog from which a high grade of bacon can be manufactured.

Pigs in Denmark are delivered when weighing on an average of 210 pounds. Moreover, production is uniform each week because the amount of skim milk regulates the number of pigs the farmer must keep.

"The forty-six cooperative bacon plants are also federated for educational purposes into one national service federation known as the National Federation of Danish Cooperative Bacon Factories. This Federation has been able to influence Government legislation that provides for the exporting of all bacon from Denmark under the common trade mark "Lur Brand," which can be stamped only on the highest class bacon from sound, healthy animals free from tuberculosis and other diseases.

"The Agents of the bacon factories on the Bacon Exchange in London are informed each week of the amount of bacon available and meet with the English wholesalers on the principal market days. As a result of this direct marketing scheme, the bulk of the Danish bacon is shipped direct from the cooperative bacon plants in Denmark to the provision wholesale houses in England. In a few instances, some of the cooperative plants have made direct contacts with the larger retail buyers in England and ship direct to them." [3]

The Cooperative Marketing of Eggs.—"Forty years ago the Danish farmer looked upon egg production as a chore which might be handled by the women on the farm. The Danish egg trade to Great Britain was not a success because the eggs were of poor quality and of no dependable grade and the supply was irregular, with the result of low prices to the producers.

"To-day, through standarization and cooperative marketing, Danish eggs are the third export commodity of the country. The 550 egg-collecting associations with a total membership of 50,000 farmers, are formed into one central egg-marketing association known as the Danish Cooperative Egg Export Association, with headquarters at Copenhagen. The central association owns ten branch packing houses throughout the kingdom and a large packing house at Copenhagen. Loans are executed and contracts made with the farmers for delivering their total egg production, similar to the plan of operating the creamery and bacon plants.

"The chief aim of the central association is to create better home and foreign markets for high-quality eggs, all buyers being assured of fresh, high-quality eggs. A stamping scheme has been devised so that each egg may be traced from the English breakfast table to the individual producer. The eggs are collected from the farmers and forwarded to the nearest packing house owned by the central association. Here under the supervision of the central association all eggs are examined, sorted, graded, and packed. All eggs collected are paid for according to weight. The association influenced the pro-

[3] Christensen, Chris L. Cooperative Marketing in Denmark. Press Circular, U. S. D. A.

ducers to standardize their product. In 1921 the Danish egg export association handled 241,266 cases of eggs. While about 20 per cent of this number of eggs were disposed of on home markets, the remaining 80 per cent were exported. The 194,445 cases, or 80.6 per cent, which were exported represented 10.8 per cent of the total egg export from Denmark.

"In addition to the Danish cooperative egg export association there are seven smaller egg associations operating along similar lines, but in the respective membership territory of seven different cooperative bacon plants. These associations exported 175,121 cases in 1921.

"Only 20 per cent of the Danish farmers belong to cooperative egg-collecting associations, yet these associations have brought about trade reforms and adopted egg standards as to quality eggs which must be adhered to not only by the cooperative associations but by all private merchants engaged in the egg trade." [4]

Cooperative Cow Testing.—The development of the cooperative creameries and the successful utilization of milk in pork production hastened the process of transforming Denmark into a nation of dairy farmers. These farmers knew, even before they turned to dairying, that not all cows were equally profitable. The question of the economic utilization of feed became, however, a problem of increasing importance as the dairy industry developed. The invention of the Babcock tester made it possible to determine how much butterfat a cow actually produced in a year.

The Danes were the first to make a practical application of the Babcock tester in a community way. In 1895, twelve dairymen who owned 300 cows formed an association and employed a trained man who was to test the cows of each member twice a month. The tester kept a record of the food consumed by each cow and of the amount of milk and butterfat produced. He was therefore able to determine how much more or less each cow produced than the cost of her feed. When one knows the value of cows in terms of profit returned, it is a simple matter to sell to the butcher those that are cared for at a loss and build up the herd from the progeny of the best producers. The man, the community, or the nation that does this has an economic advantage over those that just milk cows without knowing what any cow returns.

When the first cow-testing association was organized the average production of butterfat per cow in Denmark was less than 120 pounds.

[4] Christensen, Chris L. Cooperative Marketing in Denmark. Press Circular, U. S. D. A.

The average production has now been doubled. The cow-testing associations thrive in all parts of the country and enjoy a Government subsidy.

Progressive dairymen in other countries have followed the Danish example and organized cooperative cow-testing associations. In the more typical dairy sections of the United States such associations are fairly numerous and assist in raising the standards of dairy cow production.

Cooperative Bull Associations.—"The sire is half of the herd" has long been a stock quotation among dairymen. It is now believed that the sire has more influence upon the milk production of his daughters than have their dams. Unfortunately, the man who has but a few cows cannot afford to purchase a pure-bred bull from high-producing ancestry.

The Danes applied cooperation to animal breeding as far back as 1884. By uniting their resources, a group of small farmers could afford to purchase as good a bull as could the man who had a large herd. The ownership of good sires encouraged the purchase of better cows.

In 1921 there were in Denmark 1274 bull associations owning 1446 bulls.

The system is utilized to some extent in the United States, but has not spread as rapidly here as in Denmark because of the greater distance between farms, and because our farmers are less accustomed to cooperation.

Cooperative Banking.—There are in Denmark 496 savings institutions organized upon cooperative principles. The majority of the directors are farmers. Nearly one-half of the inhabitants are depositors. The banks are usually opened but twice each month for the making of loans and the supervision of books and credit. Cost of operation is thus kept at a minimum.

The Danish Cooperative Bank, organized to do a general banking business, was incorporated in 1914. It is owned by about 1700 cooperative societies. The headquarters are in Copenhagen but branch banks are maintained in 96 provincial cities and towns. The bank has had a remarkable growth and is one of the strong financial institutions of Denmark.

Cooperative Buying.—In 1919 there were 1691 cooperative buying societies in Denmark with a total membership of 317,000. Nearly all these societies were in rural districts, only 17 being located in

Copenhagen and 77 in smaller towns. Some of the societies in the towns and cities own several stores. The general plan of organization is very similar to the Rochdale stores of England.

The Cooperative Wholesale Society of Denmark is owned by the cooperative retail societies. It was organized in 1896 and has grown steadily. It not only sells goods but manufactures chocolate, confectionery, cigars, soap, oleomargarine, ready-to-wear clothing, bicycles, and numerous other articles. It has an enormous turnover and has accumulated a large reserve.

A Cooperative Guide.—The success of Danish cooperation in production, in manufacture, in selling standardized products, in buying, and in banking is so marked that it is one of the most interesting features of Danish civilization. For farmers to perform these many services for themselves instead of relying upon "business men" or the government to do the things for them requires a high degree of initiative and courage. The doing of the things generates self-confidence, and develops latent leadership. The farmers are no longer peasants. Ninety-two per cent are landowners and nearly all are well versed in the scientific side of agriculture, in the business side of farming, and in the political issues of the day. No other country has so low a percentage of illiteracy, and in no other country are land ownership and business activities so well distributed.

The life and outlook of the Danish farmer has been transformed in fifty years. Three factors—land ownership, education, and cooperation—have made the transformation possible, and of these three factors cooperation is doubtless the most fundamental because it brought the economic prosperity which permitted the purchase of land and gave the opportunity for education.

The Americans have already taken lessons of the Danes in the production and marketing of livestock products. Other lessons which will result in the extension of cooperation in this country remain to be learned.

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CHAPTER XVIII

DAIRY PRODUCTS

The cooperative manufacture and marketing of dairy products in the United States dates back at least as far as 1851 when the first cooperative cheese factory was established in Oneida County, New York. This factory was successful and as a result its plan of organization and operation was soon followed in other communities. By the end of 1866 there were 500 producer-owned cheese factories in New York State alone.

"Cheese factories were soon started in Pennsylvania and Ohio, and then in other states east and west. In 1869 the number in the whole country exceeded 1000, and from that time the cooperative, or factory system practically superseded the making of cheese on farms."[1]

The cooperative cheese factory was naturally followed by the cooperative creamery, the first one being built in Orange County, New York, in 1861. Their advantages over the home dairy were so great that creameries were soon common in all dairy regions. In the early years both butter and cheese were often made in the same factory at different times, or butter and skim-milk cheese at the same time.

First Associations Cooperative in Spirit if not in Form.—The form of organization of these early associations was usually very simple. There was, of course, no cooperative law and the advantages of the corporation were not as well known then as now. The unincorporated association was the most common form of organization. Each farmer-member became one of the joint owners. The expenses of operation were deducted from the receipts and the remainder prorated among the patrons in proportion to the amount of milk which each had contributed.

Some of the associations were organized as joint stock companies. These figured interest upon capital invested as a part of the cost of operation.

[1] Alvord, Henry E. Yearbook, U. S. D. A., 1899, p. 385.

Some of the associations which were organized as ordinary corporations bought the milk or cream at a fixed price in about the same way as the early elevator companies bought grain. Occasionally one of these companies would pay a big dividend to its stockholders, but usually the "savings" returned to capital averaged only an ordinary rate of interest because the farmer was paid as high a price for his product as the market would bear.

There were various modifications and combinations of the plans mentioned. The spirit of cooperation was present, even though the form of an organization might be the same as that of companies formed for profit. The associations were all democratic in spirit. They were organized to manufacture and market the farmer's product more efficiently than was being done by other means. They did their best to distribute equally the risks and awards of their enterprises.

Development of the Dairy Industry.—The dairy industry has developed rapidly during the past forty years. The factory system of manufacturing butter and cheese has stimulated production. The rapid growth of cities has increased the commercial demand for milk and its products by increasing the number of families dependent upon someone else for their daily supply of these foods. The Babcock tester and increased knowledge of breeding and feeding livestock have increased the production of milk and butterfat per cow. The cream separator and modern transportation have made possible the centralizer creamery. Refrigeration has increased the distance which sweet milk or cream can be shipped, and lengthened the time that products may be held in storage. A thousand inventions have helped either to improve quality or to decrease the cost of production. Perhaps last but not least, an enlightened public is beginning to realize the food value of milk and its many products.

In nearly every district where any very considerable number of dairy cows are milked, cooperation has played a part in maintaining an efficient system of manufacture and distribution and of returning to the producer a fair proportion of the consumer's dollar. According to R. H. Elsworth of the Federal Bureau of Agricultural Economics, there were 1400 cooperative creameries, 600 cooperative cheese factories, 140 milk-distributing associations, 40 milk-bargaining associations, and 17 miscellaneous dairy-marketing associations which made reports in 1925 to the United States Department of Agriculture. The estimated membership of these associations was 460,000, and the estimated volume of business was $535,000,000. There are undoubtedly many associations from which reports were not received.

In a limited description of the cooperative manufacture and marketing of dairy products it is impossible to trace in detail the steps in the evolution from the simple type of organization of fifty years ago to the more complex organization of to-day. An attempt will be made to present a picture of typical organizations of recent years in sufficient detail to enable the student of cooperation to determine fairly accurately the reasons for success or failure.

A Variety of Products.—The cooperative organizations that have been discussed in preceding chapters market either a single product or a group of closely related products. For example, the farmer elevator companies devote the major portion of their energies to handling grain, and the cotton-marketing associations handle nothing but cotton. The elevator which receives wheat expects to sell wheat. There is no question on the part of either the producer or the cooperative elevator company as to the advisability of milling the wheat into flour or of manufacturing the flour milled from the wheat into bread. The product that is produced by the farmer is essentially the product that is sold by the cooperative company.

All dairymen produce milk, but there is often difficulty in determining what product should be sold. Is it more profitable to sell whole milk, sweet cream, sour cream, butter, or cheese? Should the milk be sold at wholesale or at retail? Unfortunately, the correct answer to the farmers' problem may change from season to season and for a variety of reasons. The demand for market milk is irregular, being dependent, among other factors, upon the season of the year, the price of the product, and the general prosperity of the consumer. The production of milk in any given area also varies with the season of the year, weather conditions, and the profits to be made from dairying compared with the profits accruing from other farm enterprises or other types of farming.

The production of whole milk for sale either directly to consumers or to city distributors usually entails a greater cost than the production of milk for the sale of butterfat. The standards of city health regulations must be met, and this means milk production under sanitary conditions. Is the extra price received for whole milk sufficient to pay for the extra labor and equipment, and the value of the skim milk for feeding?

Some Problems of City Milk Distributors.—If a city milk distributor expects to retain his customers he must always have sufficient milk to supply their somewhat variable needs. He must contract with enough producers to obtain this supply, and unfortunately the

months of greatest milk consumption do not coincide with the months of greatest milk production. City milk distributors must therefore dispose of a very considerable volume of milk during part of the year in some other way than by retail sales. Among the more common products manufactured from the surplus are butter, cheese, and condensed milk. These must go on the market in competition with similar commodities produced nearer the source of supply and at a lower cost.

The price paid the farmer for milk must be sufficient to keep him producing market milk instead of disposing of other dairy products or of turning to other farm enterprises. If the price paid is high enough to make production unusually profitable, the market will soon be fairly deluged with milk. Consumption of milk can be increased by lowering the price to the consumer. Lowering the price to the producer decreases the supply.

The Economic Balance.—Economic adjustment is fairly delicate. It is probably more delicate with milk than with most other commodities because, as has already been stated, milk is a complex product and can be placed upon the market in a variety of forms. These varied uses of milk are all in competition with one another. The price which can be paid for milk for any use is influenced by a variety of factors.

Any cooperative company entering the dairy field must consider the various uses of milk. The cheese factory must compete not only with other cheese factories but with the demand of condenseries, creameries, and the whole-milk market. If the company covers any very considerable area, there will doubtless be portions of the area where the milk can best be used for one purpose and other portions where it can best be used for some other purpose. Should all producers in a cooperative company be paid the same price without regard to the use made of their milk? How can a company selling only a part of its product to city distributors determine which milk is "surplus"? How should a cooperative association deal with old members who are increasing their production or with farmers who wish to become members, when the company has surplus milk of which some disposition must be made?

Types of Cooperative Milk-marketing Associations.—"Farmers' milk-marketing organizations may be grouped into three classes according to the way they operate or function. A common type is the collective bargaining organization, which acts as agent for its members in determining the price, from month to month or periodically, that

the buyers of its members' milk shall pay them for it. Another type is the pooling form of organization, in which the association not only determines the price of the fluid milk sold to milk dealers, and collects the accounts from each dealer, but also operates plants where the surplus milk is manufactured into such products as butter and cheese. In the pooling type, the receipts from sales of all products of whatever kind sold are blended into one fund from which the operating expenses are deducted and the remainder is distributed pro rata to the members according to the amount of butterfat or milk each has furnished during the month.

"The third type is the cooperative milk-distributing plant or organization in which actual retail and wholesale distribution of milk is undertaken and a pasteurization and bottling plant is operated with retail and wholesale routes for distribution of the milk to consuming trade." [2]

The Interstate Milk Producers' Association.—The organization is composed of more than 18,000 farmers within the Philadelphia milk shed. According to a pamphlet published by the association in 1923, its chief function is to serve as a "selling agency for the milk of its members." It was incorporated in the State of Delaware in 1917. The capital stock is $100,000, divided into shares of $2.50 each. Each member holds one share for each ten cows which he owns or keeps. Each share has one vote. The directors are twenty-one in number, one third being elected annually. The directors elect the officers and an executive committee of five.

The association has been successful. At the time of its first organization, farmers were selling milk at 4 cents a quart, which was far below the war-time cost of efficient production. The milk retailed at 8 cents a quart, a price which had been unchanged for more than fifteen years. Within a year after their organization, farmers secured 8 cents a quart, and milk retailed at 13 cents. The price to the farmer is now somewhat lower. A schedule has been arranged which makes the amount of milk delivered by the farmer in October, November, and December basic. He receives a somewhat lower price during the months of more abundant production for milk delivered in excess of the "basic quantity," the price being dependent on the average price of New York 92 score butter and the amount of the producer's surplus.

The organization has carried on various activities in addition to selling milk. It has accumulated information upon feed prices and

[2] Potts, Roy C. Address before Nebraska State Dairymen's Association, Lincoln, January 4, 1923.

"Before the Association started doing business milk was bought by the milk dealers by measure and practically no difference in price was made whether milk tested 3.5 per cent or 4.5 per cent. Different prices were paid to each group of farmers, those living farthest from the city often getting more than those who hauled in every day. In the summer months when there was a surplus, large quantities were turned back as sour. No check on weight or tests was ever allowed. In these and other ways the farmers were at the mercy of the dealers." [4]

The plan of organization decided upon was simple and logical. The milk producers in each locality organized a group called a local. Each member was required to purchase one share of stock, par value $1, for each four cows that he owned, and to sign a contract to sell all his milk to the Association for one year. Each local elected its own officers and selected a director. The directors elected an executive committee of five who in turn elected their own officers from among this number. The plan proved satisfactory and with slight modification is in effect to-day.

The local organization handles local problems and helps maintain the interest of the members. Each member feels that he is directly represented in the management through his local director. The executive committee provides a small group who work together to execute the policies decided upon by the entire board.

The Twin City Milk Producers' Association was not given a warm welcome by either the milk distributors or the Twin City papers. City milk consumers were encouraged to believe that the farmers had organized a monopoly in order to profiteer upon them. There are always a very considerable number of city residents who appear to resent any entry of organized farmers into business.

By the spring of 1917 the Association had signed a large number of producer contracts, and as a result had a large volume of milk for sale. Some dealers contracted with the association in spite of the general opposition. The contracts provided that each dealer should be supplied each day with just the amount of milk that he needed. There would be neither a surplus nor a shortage, and the quality of the milk was guaranteed. The dealers soon found that the Association was a reliable and satisfactory source of supply.

The disposal of the surplus milk was, from the very beginning, one of the most vexing problems that the association faced. The better prices secured by the Association increased the volume of milk more rapidly than the demand for whole milk increased. Not only

[4] Leonard, H. R. Hoard's Dairyman, Vol. 59, No. 2, p. 74.

did the membership increase, but the members milked more cows and cared for them better. The surplus, which at first was only a spring and summer problem, increased until it was an all-year problem. The continued success of the association depended upon realizing enough for the surplus to give the producers a good average price for all milk delivered.

At first the surplus milk was manufactured into cheese, but the cheese market was sometimes very uncertain. The manufacture of a part of the surplus into butter was a natural result of the dissatisfaction with cheese. Other products were taken up as opportunity offered. In 1926 the products sold included whole milk, cream, butter, cheese, ice cream, skim milk, skim-milk powder, and condensed milk. Total sales for that year amounted to $8,464,354, over 48 per cent of which came from the sale of fluid milk. The company is quick to take up new ideas. In summer sweet cream is frozen and placed in cold storage in anticipation of the higher prices that usually come when production decreases later in the year.

The increase in the volume of milk handled and in the manufacture of the surplus milk created a demand for more capital than had at first been thought necessary. In 1920 the value of a share was increased from $1 to $50 and the authorized capital from $50,000 to $5,000,000. The new capital secured permitted the association to buy the cheese factories, which had at first been only leased, and to enlarge the business in a business-like way. In 1925 the Association operated fifteen receiving plants within forty miles of the Twin Cities.

The Twin Cities Milk Producers' Association has succeeded because it performs a necessary service more economically and more satisfactorily than this service was formerly performed by non-cooperative firms. It is efficiently managed and enjoys the loyal support of 7000 members. An indication of the business policy is given in the following excerpt from the January, 1924, report of the manager:

"Twin City dealers do not buy milk from us because we have a monopoly of the supply. There is over ten times as much milk available within hauling distance of the Twin Cities as can be used here. We have been able to give real service to our dealers and to sell our milk at as low a price as they can obtain milk for elsewhere, and at the same time pay our members more because we are utilizing all of the by-products."

The Franklin Cooperative Creamery Association.—As has already been stated, not all of the Minneapolis and St. Paul milk dealers

were willing to cooperate with the Twin Cities Milk Producers' Association. As a result of the lack of harmony between the producers' association and some of the distributors, some energetic Minneapolis drivers seized the opportunity, raised $100,000, and organized the Franklin Cooperative Creamery Association for the purpose of retailing milk. It started operating March 24, 1921, with 18 wagons. A year and a half later it was operating 130 wagons and delivered one-half the milk in Minneapolis.

The increase in sales is a good index of the rapid growth of the company.

ANNUAL SALES, FRANKLIN COOPERATIVE CREAMERY ASSOCIATION

Year	*Sales*
1921 (9 months)	$844,063
1922	1,670,693
1923	3,106,991
1924	3,301,591
1925	3,533,175

The 1924 report contained the following information:

Net profits	$121,783
Capital Stock outstanding	998,000
Net worth	1,141,706
Physical property	1,221,852
Number of shareholders	Over 6,000
Number of employees	Over 400
Homes served	30,000

Rebates were paid to customers upon their purchases in 1921, 1922, and 1923, the 1923 rebate amounting to $88,032. This policy has now been abandoned, and funds will be used to establish an educational department. During 1925 plans were developed for a nutrition clinic to serve 100,000 children.

Dairymen's League Cooperative Association, Inc.—This organization had its inception "in Orange County, New York, in 1907, when 690 dairy farmers owning 14,719 cows formed an organization known as the Dairymen's League. During the first seven years its membership increased to 13,000, the League functioning as a bargaining organization. In September, 1916, the League served notice that, beginning October 1, it would sell the milk of its members. The distributors refused to deal with the League."[5] The members were

[5] Agricultural Cooperation, Vol. II, No. 14, p. 215.

notified that the milk could not be sold, and on October 1 they ceased making deliveries. The outlook for the Association and its 13,000 members was not bright. They produced too small a part of the total milk supply of New York City.

To their surprise, as well as to the surprise and discomfiture of the milk dealers, about 40,000 other dairymen who were dissatisfied with prices refused to deliver milk. The dealers could not get sufficient milk to supply their needs, and after eleven days of "war" they agreed to sign the contract offered by the League.

As a result of its success, the membership of the League grew rapidly until it included nearly all of the 85,000 dairymen in the New York milk shed. The League was a collective bargaining agency. It sold the milk of the members to dealers in New York and the smaller cities, and to condenseries and other buyers. It received a commission of one cent for each hundredweight of milk sold. Price adjustments were made monthly. When the supply of milk was short the Association functioned satisfactorily, but when the supply was large there was difficulty in disposing of the milk. The sale of milk at a good price increased production. The condenseries objected because they were charged the same price as dealers, and, as has already been stated, milk used in manufacture normally sells at a lower price than milk used for consumption as sweet milk. It was impossible to vary the price in accordance with the use, because every farmer naturally wanted to receive the same price that his neighbors received. No method was provided for equalizing the returns if milk should be sold at different prices.

The leaders of the organization saw the need for a change. A mass meeting of members held in March, 1919, voted in favor of a change of organization and the placing in operation of a plan whereby milk could be pooled. The need for the change was made even more apparent when the condenseries shut down without warning in the spring of 1920. The supply of milk was far greater than the demand.

The new organization, the Dairymen's League Cooperative, Inc., began business May 1, 1921, with 50,000 members. It is a non-stock, non-profit corporation organized under the laws of New York. Capital is secured by deducting a part of the proceeds received for the sale of the milk of the members. The deductions for working capital are really only a form of deferred payment. Certificates are issued in series payable in five years. Series "A" certificates, for example, which cover deductions for the year ending March 1, 1922, were paid in 1927; series "B" in 1928; and series "C" are payable in 1929.

A member's contribution to capital is therefore in direct proportion to his sales through the company.

All milk is pooled and each member receives his share of the average net returns less deductions. For the year ending March 31, 1924, the net returns will be over 80 per cent of the gross sales when the deductions have been returned.

The contract which each member signs places his milk absolutely in the control of the Association and even regulates his methods of production. He must equip his plant to comply with the sanitary and hygienic regulations of (1) the Association, (2) the Board of Health, (3) the city (where the milk is sold), (4) the laws of the state in which the milk is produced, and (5) the laws of the state in which the milk is sold. The man who produces clean milk is protected from the competition of careless producers in so far as the Association can protect him.

The Association may accept or reject the milk of any member, and if rejected it cannot be sold to any other buyer without the consent of the Association. He must distribute his production throughout the year as ordered by the Association. He must deliver the milk to such station or manufacturing plant as the Association may direct.

The Association may deduct such proportion of the proceeds from sales as it wishes, for interest, operating expenses, and for capital loans. For the first eight months the Association was in operation, it did deduct for all purposes, on the average, 73.5 cents for each hundred pounds of milk delivered. The following clause has caused some producers to hesitate before signing the contract: "The producer, in the absence of fraud, hereby waives all rights at law or in equity to an accounting therefrom, (the distribution of the proceeds) and this contract shall act as a bar thereto in any proceeding taken by the producer therefor."

Before deciding that these and various other articles of the contract are too severe, the producer should remember certain things:

1. The member contracts with his own organization which is composed of men in the same business that he is in, and for the most part these men are honest and sincerely desire a successful marketing organization.
2. Every other member signs the same contract. It is as fair for one as for all.

3. The members can control the organization through their voting power—the election of the members of the Board of Directors.
4. Any one who is dissatisfied may withdraw upon April 1 of any year by giving notice between the twelfth and twenty-eighth day of February preceding.
5. Market conditions were unsatisfactory before the organization of the Association. Is there at present any other hope of remedying them except through the Association?

In spite of the objections to the contract, the sales of the organization for the year ending March 31, 1927, totaled $73,845,097 and on April 1 of that year it reported 66,383 active members. A few members have dropped out each year but enough new ones have joined during the year to make good the loss. Evidently the members who stick believe that the League is accomplishing its work and offers a better solution of the problem of marketing milk in the New York milk shed than any other method that has been proposed. The members have abundant opportunity to discuss the League and its methods, because the members are distributed among 897 locals which hold more or less regular meetings.

In order to care for the surplus milk, the Dairymen's League Cooperative Association was compelled to buy and lease plants where it could be condensed or manufactured into milk powder, cheese, and ice cream. This necessitated a large amount of capital, the employment of many men, and the operation of a large and complex business.

"From cow to consumer" is a short road when the dairyman distributes his own product fresh from his own cows; it is a long road when the milk is gathered from many sources and distributed among dealers and manufacturing plants, and when the manufactured product must be advertised and distributed over a wide area. Because of the complexity of the business, the Dairymen's League Cooperative Association changed its policy of disposing of the surplus during 1924. It has eliminated almost all of its manufacturing activities and is becoming an almost strictly fluid milk enterprise. Under the new policy the association sells largely to the city milk trade of New York City, and may restrict its membership to those who can best supply the milk for this trade. It has bought out unfriendly distributors and leased or sold the plants to friendly distributors. It is not unlikely that within a few years practically

all of the milk sold in New York City will be distributed by not more than two or three companies, possibly by one, and the milk will be brought to the city by the Association. Such a system would mean economy of distribution. It should redound to the advantage of producer, distributor, and consumer.

Producer Associations Retail Milk.—As a city grows, a smaller and smaller proportion of the milk supply is delivered to the consumers by the dairymen who produce it. The distance from the dairy farm to the city consumer increases. Routes become unduly long, because many producers are required to serve the entire city, and the residents of no part of town unite upon one dairyman. The business is gradually taken over by distributors, each of whom requires the product of many farms. As has already been indicated in this chapter, the relationship between the producers and the retailers is not always satisfactory. The collective bargaining agency and the association that sells to dealers at wholesale and manufactures the surplus have already been described. Another type of producer cooperative is the association that retails dairy products.

The exact number of such associations is not known but is probably well over one hundred. Reports made to the Bureau of Agricultural Economics for 1923 by 41 of these associations indicated that they had a membership of 11,800, that they served about 138,600 families, and handled 125,800 gallons of fluid milk daily.

One of the largest of these associations is located at Cleveland, Ohio. It was organized in 1915 by 24 farmers who were not satisfied with the returns which they were receiving. In 1924 the company had 158 shareholders. Producers must subscribe for stock in proportion to the milk delivered, and employees may subscribe. Surplus milk is manufactured into ice cream.

The Quincy (Ill.) Cooperative Milk Producers' Association is the result of 55 retailers' being charged with selling unsanitary milk during 1921. Neither producers nor consumers were satisfied with conditions, and the producers decided that cooperation was the remedy. The company began business May 30, 1922, in a modern plant thoroughly equipped for handling milk and milk products. Within a year they were operating eight retail and three wholesale milk routes. "Statements for July and August, 1923, show that during these months the producers received 61 per cent of the consumer's dollar after deducting sales expense, operating expense, depreciation, dividend reserve, and general fund reserve." [6] This is

[6] Agricultural Cooperation, Vol. I, No. 25, p. 5.

decidedly better than the 50 per cent or less that is often the farmers' portion. The consumption of milk and its products has increased until the local supply is inadequate.

In order to enter the retail field, more capital is required in proportion to the volume of milk produced than is required to dispose of the milk at wholesale or by collective bargaining. In order that milk and milk products may be handled properly there must be adequate buildings and modern equipment. Milk must be cooled, pasteurized, recooled, and bottled. The surplus must be used for manufacturing ice cream, cottage cheese, butter, and other products. Unless the service can be well done the producers might better leave the field to regular dealers.

Probably the best method of raising the money is to organize as a cooperative company with capital stock and require each member to buy stock in proportion to the amount of milk sold at the plant. The non-stock organizations may obtain money from membership fees, loans from members, and, after the plant is once in operation, from a certain commission upon the milk delivered, either to be retained permanently by the company or returned after a period of years as is done by the Dairymen's League of New York.

Before organizing a retail association producers should be certain that there is need for such an organization and that adequate capital can be secured. If organization is decided upon, the success or failure of the company may depend upon such factors as the location of the plant, its convenience, and its equipment. The securing of a competent manager is not the least of the many problems.[7]

The Cooperative Cheese Factory.—The manufacture of cheese in the home has been replaced by its manufacture in a factory, for two important reasons. In the first place, the factory saves labor. Instead of each farmer or his wife spending time to manufacture the milk from his own cows into cheese, the cheese maker, with perhaps the help of an assistant, is able to manufacture the milk from hundreds of cows into cheese. The cost of hauling the milk from the farms to the cheese factory is more than offset by the increased efficiency of manufacture. This is an illustration of the savings that result from division of labor and quantity production. A second reason for the success of the factory is the public demand for a standardized product. It is easier to turn out a uniform product from one factory than from fifty farms.

[7] U. S. D. A. Bulletin No. 1095. Producers' Cooperative Milk Distributing Plants gives an excellent discussion of the needs of this type of an association.

For a cheese factory to operate efficiently—to utilize to the best advantage the capital invested and the labor of the cheese maker—it is necessary to have available an abundant supply of sweet milk. About 10 pounds of milk are required to manufacture one pound of American cheese. To produce 200,000 pounds of cheese in a year requires about 2,000,000 pounds of milk. This is equivalent to the total production of 400 cows averaging 5000 pounds of milk each, or of 500 cows averaging 4000 pounds each.

The farms upon which the cows are milked must necessarily be within a few miles of the cheese factory, else the cost of transporting the milk will consume too large a part of the receipts for the cheese. The farmer who lives several miles from a factory can ordinarily secure greater net receipts by selling sour cream, which can be delivered when he goes to town upon other business, than by selling sweet milk, which must be delivered each day. Cheese factories are therefore likely to succeed only where the cow population is relatively dense.

The city consumer demands milk. In order to get milk he must therefore pay a higher price than cheese factories or creameries can afford to pay. Near large cities there is necessarily a region where most of the milk is sold for city consumption. Farther out is a region where it may either be sold to the city or used in the manufacture of butter or cheese. Nearly all cheese factories are therefore necessarily located in dairy regions outside of the demands of cities for whole milk.

A very considerable part of Wisconsin and southern Minnesota fills the requirements essential to the successful production of cheese—an abundant supply of cheap sweet milk. More than 2500 of the 4000 cheese factories in the United States are in Wisconsin.

The American Farm Bureau Federation published the following distribution of cooperative cheese factories in 1922:

Wisconsin	708	Ohio	20
Minnesota	59	Illinois	17
Oregon	33	New York	12
North Carolina	30	Scattering	49

Organization of a Cheese Factory.—The amount of capital required for building and equipping a cheese factory is not large, the majority of the cooperative factories being capitalized at less than $2500. The par value of the shares of stock varies according to conditions at time of organization, but $25 and $50 shares are most

common. In some companies the members vote according to the number of shares of stock owned, but the one-man one-vote rule is more common.

Dividends on stock are nearly always small, some companies not paying any. There is a very general belief that as high a price as possible should be paid for milk since the success of the company depends so largely upon the volume of cheese manufactured. Nearly all companies buy milk of non-members as well as members. Where no dividend is paid on the stock, this gives an advantage to the non-member. Some companies assess the non-member from 1 cent to 3 cents per hundred pounds of milk delivered for his share of the upkeep of the factory.

The National Cheese Producers' Federation.—The successful manufacture of sweet milk into cheese is but one step along the road that leads from the producer of milk to the consumer of cheese. If the producer is to receive a fair share of the consumer's dollar there must not only be efficiency in manufacture, but efficiency in each step of the marketing process. Cooperative cheese factories have probably been less successful in disposing of their product than in manufacture. Most of the managers are well trained in the making of cheese but very poorly trained in the marketing of the product. Perhaps this is but natural since the major portion of the manager's time is necessarily required in the manufacturing process.

Unfortunately there is no market where the price of cheese is registered as promptly and as accurately as the price of grain is registered at the large grain exchanges. Cheese prices have been determined very largely by "cheese boards." Theoretically these boards are open markets where cheese is bought and sold and prices determined by supply and demand. A cheese board usually meets but once each week, and the prices established at that time determine the prices to be paid for cheese during the ensuing week. Producers have often complained that in actual business practice the number of buyers and sellers present is not always enough to insure competition and that the volume of sales is often too small to establish a price. Probably all students of marketing will agree that a very few men meeting for only an hour each week could reach a private agreement and manipulate prices and the rules of trade much more readily than could a large number of men meeting daily and handling a large volume of business. The conditions of which cheese producers have complained are at the best an open invitation to market manipulation.

The farmers of Sheboygan County, Wisconsin, became so thoroughly dissatisfied with this method of selling cheese that in 1912 they held various meetings to discuss cheese marketing. The sales of cheese at the Plymouth Cheese Board were used as a basis for determining the price which they should receive. They believed that the sales were prearranged, that the prices were fixed by the dealers, and that there was no true competition. Cooperative selling was deided upon as a relief measure.

The Sheboygan County Cheese Producers' Federation began business April 1, 1914. It had a membership of forty-five local cheese-factory associations. The new company faced an unusual number of market problems. The ordinary business develops slowly. Goods are purchased only in sufficient quantity to supply its customers. The Federation began to receive the product of its member factories before it had an opportunity to establish trade connections. It was required to pay for cheese not only before the cheese was sold but before there were any regular customers. During the first few years the Federation sold a large part of its product to the large packers and other firms that had an established outlet. A constructive sales campaign was directed at the wholesale grocers in cheese-consuming states. A subsidiary storage corporation was formed which, within six months, had completed and equipped a warehouse and cold storage plant in Plymouth at a cost of $22,000.

The membership and volume of business of the new company grew slowly for the first few years. The officers and manager were busy establishing trade connections and putting the business which they had upon a firm basis. By 1917 they were ready for a state-wide field of action, and the name was changed to the Wisconsin Cheese Producers' Federation. The company continued to grow. At the close of 1927 there were 299 member factories, a few of which were located in Minnesota, and factories located in two other states were seeking admission. As a result of the expansion of the business and the demand that the company occupy a broader field, the name was changed in 1928 to the National Cheese Producers' Federation.

The rapid growth that brought about these changes in the name of the company is presented statistically in Table XX.

The possible range of activities of the Federation has also been broadened and now includes the manufacture and handling of all kinds of dairy products and the marketing of poultry and other agricultural commodities for members and others.

The Federation was handicapped for many years by a shortage

of capital. The total net worth at the close of business, December 31, 1927, was $167,225, distributed as follows: Capital stock, $3100; certificates of indebtedness, $53,465; appropriated surplus, $25,458; and undivided surplus, $85,202. At the 1928 annual meeting plans were made for securing additional capital by offering for sale 6 per cent preferred stock in $50 shares to the amount of $500,000.

TABLE XX

GROWTH OF THE NATIONAL CHEESE PRODUCERS' FEDERATION *

Year	Pounds of Cheese Sold	Cheese Sales	Pounds of Cream Handled	Supplies Sold
1914	6,108,450	$873,618		
1915	7,509,692	1,132,867		
1916	7,426,588	1,304,640		
1917	9,015,317	2,171,526		
1918	8,585,438	2,322,536		
1919	13,980,829	4,306,599		
1920	13,906,685	3,686,130	....	$41,669
1921	14,939,917	2,794,964	236,954	50,390
1922	18,646,263	3,790,219	865,162	56,965
1923	23,912,478	5,577,180	1,057,431	90,963
1924	28,496,198	5,475,677	1,264,122	95,559
1925	28,893,853	6,521,920	1,755,214	113,762
1926	33,614,805	7,037,787	1,989,845	133,331
1927	35,650,849	8,553,483	2,929,511	153,644

* Agricultural Cooperation, Vol. VI, No. 5, March 3, 1928.

The increase in membership, in volume of business, and in the area tributary to the Federation has necessitated a development of handling facilities. At first all cheese was shipped to Plymouth. As the number of member factories and the volume of cheese handled increased, it became necessary to establish warehouses at various points in order to save in cost of freight over the collecting of all cheese at a single point.

Although the Federation does not handle the major part of the cheese in the territory where it operates and has never attempted to secure a monopoly of the marketing of Wisconsin cheese, it nevertheless exerts an important influence upon cheese manufacture and cheese marketing. The farmer delivers milk which is made into cheese by his local factory. It is shipped to the district warehouse where it is paraffined and cured and where it may be held in cold

storage for more favorable marketing conditions. The producer is concerned with the quality of the cheese delivered because that is one of the factors affecting the price which he receives for his milk.

The National Cheese Producers' Federation has developed a sales organization which distributes cheese to dealers in nearly all the states. All the cheese manufactured by the member factories must be sold, and upon the selling price and economy of operation depends the price which the farmer can be paid for his milk. The success of the entire program is based upon efficiency. The cooperative cheese factory must be operated more efficiently than the privately owned factory, and the Federation, through its warehousing system and sales organization, must handle the cheese more efficiently than it can be handled by competing organizations. The growth of the Federation is proof that the efficiency program is winning the confidence of the farmer members of the cooperative cheese factories in Wisconsin, Minnesota, and other nearby states.

The National Cheese Producers' Federation can be classed among our more successful cooperative ventures of more than local importance. It has secured for its members independence in marketing, more stable prices, and a larger share of the consumer's dollar.

The Tillamook County Creamery Association.—The Tillamook Valley in Tillamook County, Oregon, is hemmed in between the Pacific Ocean and the Coast Range. For many years the only means of communication with the outside world was by steamboat. Because of these natural barriers to commerce, the farmers are compelled to rely largely upon the marketing of concentrated products which are not extremely perishable.

The soil of the valley is fertile, the rainfall abundant, and the climate mild. A variety of grasses and legumes grow luxuriantly. It is a natural dairy region. Butter and cheese fulfill the conditions necessary for marketing. Both have been tried, but in recent years cheese has been found the more profitable.

Cooperation began in the valley in 1893. The first notable success, made in 1903, was due to the energy and selling ability of a young man, Carl Haberlock, employed by one of the cooperative factories to sell cheese. He was so successful that very soon he was employed by a second factory and a little later by several others. At present he is the secretary and selling agent of twenty-five independent cooperative cheese factories. He is also secretary of the Tillamook County Creamery Association, an organization of the cheese factories for the purpose of improving the quality of cheese.

A factory inspector is employed to visit every factory once each week. The product must pass his inspection as reaching the required standard before it can be marketed as Tillamook cheese. The brand is well known in all the coast cities, and commands a premium of several cents a pound over other cheese.

The output of the Association increased from 2,541,057 pounds of cheese in 1909 to 7,386,100 pounds in 1924. Sales increased during the same period from $400,044 to $1,855,354. Since 1924 there has been but little change in either volume of output or receipts from sales.

The Association has always followed good business principles. No energy has been used in a fruitless attempt to monopolize the cheese business of the entire United States or even of any particular region. Instead, a high standard for the product has been established and maintained. The buying public knows that the "Tillamook" brand stands for quality, and is willing to pay to be assured of getting high quality. The product is marketed efficiently. There is no lost motion, and no officials are paid high salaries for looking wise. This is an excellent illustration of a quality product commanding a premium at consuming markets, and the producer receiving the wholesale price less only necessary handling charges. No one factory could do what cooperation enables twenty-five factories to accomplish.

The Cooperative Creamery.—The making and marketing of butter through cooperative agencies has reached its highest development in Denmark, but butter had been manufactured in cooperative creameries in America for twenty-five years before the Danish commissioners to the Centennial Exposition learned the American plan of organization and carried it home as a model. The Danish cooperative creameries have practically secured control of their field; our cooperative creameries influence the efficiency and the profits of private creameries by furnishing active competition.

The first cooperative creameries in American were organized because the farmers felt the necessity for a more efficient system of manufacturing and marketing butter. They developed a plan at which individual enterprise and capital scoffed. Unlike the cooperative elevator companies, the California Fruit Exchange, and the various milk-marketing associations, they had no active opposition during the organization period. Competition began when the factory system proved successful.

The success of the early creameries resulted in a very rapid increase in their number during the eighties and nineties. Creameries

were built not only where they were needed but in many places where little butterfat was produced. The Plains States were developing rapidly at that time, grain prices were low, and crops not always certain. The cooperative creamery was heralded as a sure money maker. In Kansas alone, more than 500 creameries were established during this period. Most of them lived but a short time because not enough cows were milked to furnish an adequate volume of business.

A part of the development of the period was due to the activity of the manufacturers of creamery equipment. Skillful salesmen were sent out who not only sold creamery equipment but sold the idea of a cooperative creamery and often built and equipped a plant and turned it over to the farmers. All that the farmers had to do was to accept the promoters' plan of organization and pay for the plant. The building might not be well planned nor the equipment of the best type. Knowing nothing about a creamery or about butter manufacture outside of the home dairy, the farmers were not in a position to question the statements of the salesman. When the plant was built and paid for, the interest of the promoter ended. He was busy selling creamery equipment in some other locality. The farmers had the creamery and usually soon had an idle plant and an unprofitable experience.

Essentials for a Successful Creamery.—The organization of a creamery company should be based upon need. There should be, first of all, an abundance of butterfat pledged to keep the creamery running. It is commonly estimated that the minimum number of cows required is 600. The organizers will usually do well not to start building operations or make contracts requiring an expenditure of money until the butterfat from 1000 cows has been pledged. Even then production will probably be short a part of the year because the ordinary farm cow is milked only about nine months. An agreement to deliver milk or cream can be relied upon only where it is backed by an enforceable contract.

A creamery needs capital not only for building and equipment but also for operating expense. One of the best times to get it is at the time of organization. The amount depends upon the size of the organization. Some small companies get along with $5000, and some large companies find $100,000 insufficient. Most cooperative creameries are organized as stock companies, and this is undoubtedly the best way of securing capital. The par value of the shares of stock is usually placed between $25 and $100. As it is usually easier to secure capital when the shares are relatively large, probably $50

should be considered the minimum. A definite relationship should be established betwen the number of cows a man milks and the number of shares of stock that he should buy.

Dividends paid upon stock should be merely current wages for the use of money. The board of directors must be men who have a very vital interest in the success of the creamery, and preferably men who have had some business experience. The manager should not only be a competent butter maker, but should be a believer in cooperation and have some ideas regarding the sale of his product.

Cooperative Centralizer Creameries.—Until the cream separator came into common use, the successful cooperative creameries were all situated in localities where dairying was a major enterprise on most farms. The whole milk was usually hauled from the farms to the creamery and the skim milk returned to the farmers. The territory which the drivers could cover with a team and wagon was necessarily restricted. If not enough surplus milk was produced in a locality to enable a creamery or cheese factory to operate efficiently, the cream was allowed to rise and was churned into butter in the farm home.

The cream separator made possible the centralizer creamery. The milk is ordinarily separated while yet warm, and the cream taken to a cream station at some shipping point when opportunity offers, usually two or three times a week but sometimes only once in two or three weeks. It is sometimes shipped two or three hundred miles to a creamery. The cream is almost invariably sour before it reaches the creamery and sometimes is so old that it has acquired an unpleasant taste and odor. It is, of course, impossible to make a high-scoring butter out of such cream. The cost of shipping the cream and the cost of operating the cream station where it is assembled is naturally deducted from the price paid the producer. This expense is not small. Often half a dozen creamery companies maintain as many stations in a small town. Under such conditions no station does a large business.

In spite of these various factors which lower the price paid by the large centralizers to the producers, the local cooperative creamery which receives but a small amount of cream cannot compete against them. The reason is very simple—volume of business. The centralizers can hire the most efficient butter makers who are able to overcome in part the poor quality of the cream and yet have a low manufacturing cost per pound. The little creamery often has difficulty in finding a satisfactory market because its product is unknown.

The large producer builds up a selling organization, establishes agencies, advertises when necessary, and has a standard well-known brand of butter for sale every business day in the year. The farmer receives more for his cream from the centralizer than the small creamery can afford to pay.

Dissatisfaction with the situation has resulted in the establishment of cooperative centralizers. They draw cream from several counties and secure a large enough volume of business to effect economics in manufacture and marketing. Successful cooperative centralizers are located at Fremont, Orleans, and Superior, Nebraska; Limon, Colorado; Aberdeen, South Dakota; and various other places in the Great Plains States.

The Farmers' Equity Union Creamery Association, Orleans, Nebraska, is an example of what may be accomplished by this type of organization, provided the membership is loyal and the creamery is managed efficiently. The Association is a stock company, all members of which are members of the Farmers' Equity Union. Their gross sales of butter for the year ending November 30, 1927, were $1,417,779. The company also manufactures ice cream and handles eggs and poultry on a commission basis. The net profits of the company for the eleven-year period 1917-27, inclusive, exceed $283,000.

The present satisfactory condition of the creamery at Orleans and of some of the other cooperative centralizers does not give any indication of the bitter opposition that they have encountered. Their chief competitors had experience, well-established trade connections, and

abundant capital. At times there have been indications of a smooth-working "gentleman's agreement." It is difficult to believe that all the cream stations in a town just happen to pay at all times the same price for butterfat without regard to the distance to be shipped. When the entry of a cooperative into a field narrows the margin between the price paid for butterfat and the wholesale price of creamery butter by as much as 4 cents per pound, the producers are doubtless warranted in believing that there had previously been little competition in price.

TABLE XXI

Growth of Farmers' Equity Union Creamery at Orleans, Nebraska *

Year Ending November 30	Butter Made, Pounds	Net Profit	Net Worth
1917	394,257	$7,518†	$3,411
1918‡	315,206	8,518	12,305
1919	929,055	19,365	41,669
1920	1,065,607	10,227	50,017
1921	1,267,733	29,001	76,395
1922	1,555,074	32,379	96,425
1923	1,533,041	25,548	105,571
1924	1,690,144	19,916	111,880
1925	2,172,180	55,753	120,480
1926	3,055,000	41,873	162,353
1927	3,421,017	47,947	182,580

* Agricultural Cooperation, Vol. III, No. 7, p. 130, and Yearbooks of the Association.
† Loss.
‡ 6 Months.

The profits accruing to producers because of the cooperative centralizers have been out of all proportion to the volume of business handled and the dividends paid. The increased price paid for butterfat has been of advantage to all producers, even though they do not patronize the cooperative company. Sometimes the benefit to nonmembers has been large when the cooperatives have been experiencing great difficulty in selling butter for enough to pay operating costs and meet the price paid for cream by their competitors.

Cooperative Marketing of Dairy Butter.—The American housewife prefers to buy staple foods by brand name. She specifies the particular brand of bread, butter, and baking powder which she desires. The brand that is in the market but part of the time is

likely to receive scant recognition even though it be of the purest quality. In the preceding chapter the Danish method of marketing the products of small creameries was described, and mention was made of the very unusual results that have followed the use of that method. American cooperative creameries have but recently begun to follow the Danish example.

Land O' Lakes Creameries, Inc., is a federation of Minnesota creameries organized in 1921 (as the Minnesota Cooperative Creamery Association) for the purpose of handling problems common to all cooperative creameries. Headquarters are at Minneapolis. It began marketing butter in 1924 and is the largest cooperative butter-selling agency in the United States.

Each member creamery agrees to consign all its products to the association for a period of two years, and then continuously except that either party may terminate the agreement on January 1 of any year after 1926 by giving from thirty to sixty days' notice. The association agrees to score, grade, brand, and sell the butter, and to return to each creamery the amount of sales less the expense of selling the product. Sweet-cream butter scoring 93 or higher is sold under the established trade name, Land O' Lakes Butter.

In its first year of operation, 1924, the association handled 32,-843,034 pounds of butter. The gross returns to the creameries totaled $13,362,427. The average monthly price ranged from 57.46 cents in January to 37.35 cents in April. In 1927 the butter sold totaled 84,412,139 pounds. The total business handled, including the sales of the creamery-supply department as well as sales of butter, sweet cream, powdered milk, and cheese, amounted to $46,315,080.

In 1922 only 25 per cent of the butter made by the member creameries was sold for extras. Since July, 1924, when inspection began, the percentage of 93-score butter has increased from 40 to 72 per cent. All butter is scored by Federal inspectors and sold under Federal certificate of quality. The net worth at the end of 1927 was $655,577. Offices are maintained in Minneapolis, Duluth, Chicago, Philadelphia, and New York.

Some of the cooperative centralizer creameries own stock in the Chicago Equity Union Exchange and market their butter cooperatively through that agency. In 1923 it handled 188 cars for four creameries. It is reported that the cooperating creameries are finding this method more satisfactory than independent selling, even though their butter has sold at a lower average price than the Land O' Lakes brand.

Cooperative Cream-shipping Associations.—In the centralizer territory cream has been shipped cooperatively to some extent. A few associations have been formed for this specific purpose, and other cooperative enterprises have sometimes handled cream as a side line. On the whole a cooperative cream-shipping association seems to have little opportunity to develop except when it is established as a feeder for a cooperative creamery. It has not been welcomed by the large centralizers as it is in direct competition with their cream stations. It must handle a large volume of business in order to be operated more efficiently than an ordinary station. Perhaps its greatest possibility for success is a community where there are many patrons of a cooperative centralizer who wish the service that an association can give.

Summary.—This rather long discussion of the manufacture and sale of dairy products by cooperative organizations neither covers the entire field nor covers any part of it fully. Because of the large number of organizations and the variations in type, it is impossible to do more than present some general principles and a few specific examples. It is believed that enough of the field is covered to prove that cooperation is being applied successfully in the marketing of fluid milk and in the manufacture and marketing of various dairy products. It has succeeded only where it limited its efforts to efficient marketing and made no effort to secure a monopoly or to "fix prices." Milk can be produced on so many farms that any policy to control price or limit production is not able to meet more than a very temporary success.

In the localities not touched by cooperatives, there is often a lack of efficiency in handling dairy products. The multiplicity of cream stations in centralizer territory, the distance which cream is shipped, and the duplication of delivery systems in cities may be mentioned as outstanding examples. Cooperation will help when rightly organized, loyally supported, and efficiently managed. Neither producers nor consumers who are afraid to fight should attempt cooperation in any phase of the marketing of milk or its products. They may expect opposition, and usually opposition that is well organized and well financed. The successful organizations seem to think that cooperation is worth much more than it has cost.

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CHAPTER XIX

LIVESTOCK

"The first cooperative livestock-shipping association in the United States of which there is a definite record was located at Superior, Nebraska, and included farmers residing in both Kansas and Nebraska. Mr. G. W. Jacobs, who was one of the leaders of the movement, states that the first organization meeting was held in a country schoolhouse on the Kansas side of the state line in December, 1882, with about twenty farmers present. He states that it was the opinion of those present that local buyers were taking too wide margins with additional gains by "lumping off" the stock without weighing. Other farmers from the two states joined the movement, bringing the charter membership up to about sixty.

"It was in November, 1883, that the first car of hogs was shipped, and only five cars were shipped the first year. Mr. Jacobs reports that many obstacles were put in the way of the new organization. The railroad failed to furnish cars; price bribes were offered members; use of scales was refused; but through it all most of the members remained loyal and, in time, the association came to be the only shipper in Superior. Mr. Jacobs, to whom is due much of the credit for success, has modestly said, 'I know it took a lot of hard work until the five buyers quit the field.' "[1]

Development of Cooperative Livestock Shipping.—Local granges in Iowa, Missouri, and other middle-western states are reported to have shipped livestock cooperatively during the period of grange development in the early seventies. In most instances, if not in all, no separate organization was formed, the shipment of livestock being carried on as one of a variety of business activities. Such shipments naturally ceased when the grange membership in these states declined to almost nothing in the late seventies.

Reports of the success of the Superior Association evidently did not travel either very far or very fast. It was twenty years before Iowa farmers formed the second association (1904) and they knew nothing of the Superior organization. In the next four years a few

[1] Hedges, Harold, and Filley, H. C. Cooperative Marketing of Livestock in Nebraska. Bulletin 209, Nebraska Experiment Station, 1925.

associations were formed in Iowa, Wisconsin, and southern Minnesota. An association formed in Litchfield, Minnesota, in 1908, was the first to receive wide publicity, and was used as a model for organizations in many other places. The movement did not develop rapidly until about 1914. It is now one of the popular methods of marketing livestock in the North Central States and is growing rapidly in other parts of the country.

The Bureau of Agricultural Economics of the United States Department of Agriculture received reports from 1770 associations in June, 1925. They were distributed as follows:

TABLE XXII

DISTRIBUTION OF LIVESTOCK-SHIPPING ASSOCIATIONS IN THE UNITED STATES, JUNE, 1925

Geographic Division	Number	Per Cent of All
West North Central	1005	56.8
East North Central	674	38.1
South Atlantic	30	1.7
All others	61	3.4

Not all the associations reporting to the United States Department of Agriculture gave their exact membership, but from those that did furnish adequate information it is estimated that they served 400,000 shippers in 1925 and that 96 per cent of the total membership was in the North Central States. The estimated membership in the states where cooperative livestock shipping is most important is presented graphically in Fig. 16.

In volume of business shipped through cooperative associations in 1925 the leading states ranked as follows: Illinois, Iowa, Minnesota, Ohio, Indiana, Missouri. The livestock handled was valued at $320,000,000. This was an average business of $180,000 per association and of $800 per member.

Large as are these figures they do not tell the full story of cooperative livestock shipping. It is doubtful if all existing associations are listed by the Department of Agriculture. In Nebraska and to some extent in other states, cooperative elevators ship livestock as a side line and these shipments are not included in the Department estimates.

Reasons for Organization.—The reason given by the Superior association, a belief that "the dealers were taking too wide margins,"

is the most common reason given for organization. There are, however, some very definite reasons why a well-managed shipping association should return to the purchaser a larger share of the price received at the terminal market than can possibly be paid him by most local buyers.

The overhead cost of a carefully operated shipping association is low. It does not expend money for advertising or for trips into the country to find stock. The manager may and often does do other work most of the time, whereas the average buyer must stay on the job all the time. Few buyers are without active competition; many associations find themselves without competition, and secure all the

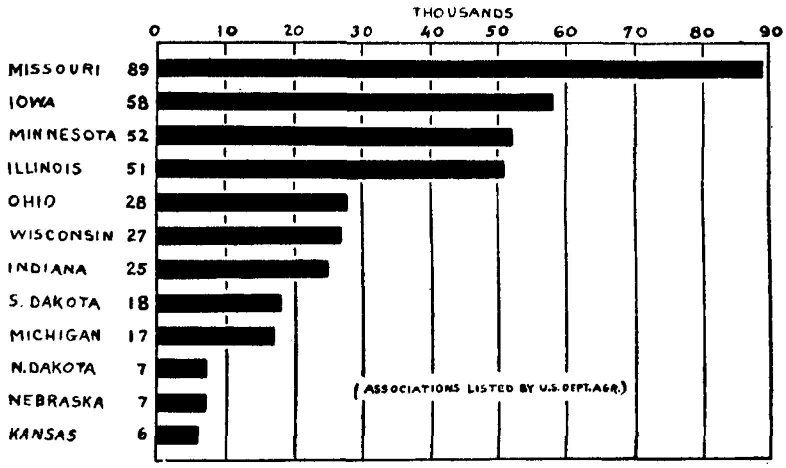

FIG. 16.—Estimated Membership of Livestock Shipping Associations, 1925.*

* Elsworth, R. H. Agricultural Cooperative Associations. Technical Bulletin No. 40. U. S. D. A. 1928.

advantages that accompany a large volume of business. Each man knows that he receives the terminal market value of his stock less only actual cost of transportation and handling charges. This is a source of great satisfaction to many men.

Plan of Organization.—The cooperative livestock shipping agency is a comparatively simple type of organization. Since little capital is required, it is best to organize as a non-stock non-profit association. A small membership fee is usually charged to secure money for scales. and incidental expenses. Every such association should incorporate. It is more businesslike, and, as was explained in Chapter VII, limits the liability of the individual members for company debts.

The business of an association is under the charge of a board of directors whose principal job is to elect a competent manager. Of course, the directors should know that the business is conducted properly and that the accounts are audited regularly.

The manager is in charge of the receiving, marking, loading, and shipping of stock. The success of an association usually depends very largely upon the ability and interest of the manager. He must have skill in handling and loading shipments, and be prompt and businesslike in all his dealings with the patrons. Less training is required of him than of the manager of a more complicated enterprise, but he must be a man with natural ability and a desire to make the association succeed.

The County Plan.—"The 'county plan' for cooperative marketing of livestock as operated in Ohio has one company for the whole county with one board of directors. This board of directors appoints a county manager, who becomes its executive officer in shipping livestock, in handling correspondence, in receiving all "account sales" and checks, in prorating returns to the shippers, and in issuing checks to them. This manager, usually in consultation with the whole board of directors, or at least with any directors living in the respective localities, appoints local or sub-managers to take charge of shipping at such points as he cannot care for personally. The sub-managers by phone or personal visit secure information as to stock ready for shipment, notify shippers when "ready to ship"—i.e., when sufficient stock for one or more cars is available—receive and weigh the stock as brought in from the farm, mark the stock or partition the cars or both, bill out the stock to the commission firm named by the manager, and send to the manager duplicates of the weigh slips given the shippers and of the invoice sent to the commission company. He should send duplicate of freight bill also. From then on, "the manager does the rest." The manager also does these tasks at the one to three points at which he ships. He generally directs, and sometimes assists, his sub-managers in their work; he is expected at least to assist them in "getting started right" and to help them later by correspondence or personal visit if heavy losses, heavy shrink on cars shipped at that point, or complaint of the shippers indicates need therefor."[2]

The chief advantage of the county-wide association is that it gives a sufficient volume to permit the employment of a manager of recognized ability who really knows livestock marketing. It has the

[2] Wallace, B. A. Cooperative Livestock Marketing in Ohio. Bulletin 375, Ohio Agricultural Experiment Station.

disadvantage of complicating the business because local managers are required to take care of the shipments at a part of the shipping points. Whether or not the additional overhead is worth the cost doubtless depends upon the volume of livestock to be shipped, upon the availability of competent managers for local associations, and upon whether or not the county is so located that all stock is shipped to a single market, or whether there is a choice between several markets. Ohio shippers apparently like the plan, and it seems worth the study of cooperators in other states.

Cooperative Livestock Shipping as a Side Line.[3]—At many shipping points, the volume of livestock shipments is not sufficient to occupy fully the time of a manager. At such a point, the manager must have other sources of income, or a moderately high commission charge must be made to give him a living wage.

Farmers often question the advisability of having several cooperatives at a local shipping point when the business can be cared for by one organization and one manager. Such a plan has obvious advantages. The manager of the cooperative elevator or cooperative store has a definite place of business and is either there himself or leaves someone else in charge. The part-time man is sometimes difficult to reach by the man who has stock to ship. The addition of livestock shipping to the other duties of an elevator manager may permit the employment of a bookkeeper, and relieve him of the clerical work that most managers dislike.

The shipping of livestock as a side line by an elevator or even by a cooperative store seems advisable from the standpoint of economy, but there are other considerations. The commodity organization has an advantage in that the interest of the members can be maintained more easily. At a meeting of a shipping association, livestock shipping problems are discussed. At a meeting of a cooperative elevator handling livestock, livestock shipping may never be mentioned except in the financial report of the manager. A farmer giving part of his time to livestock shipping or a retired farmer wanting something to do has been found to make a good association manager where volume of business is small. It is important that some way be found to keep

[3] The discussion of Cooperative Shipping as a Side Line, The Producers' Contract, Basis of Payment of Manager, Methods of Covering Losses in Transit, Home Grading or Sale by Ownership or Mark, and Accounting Methods is adapted with but slight modification from Harold Hedges and H. C. Filley, Marketing Livestock through Cooperative Organizations in Nebraska, Nebraska Agricultural Experiment Station Bulletin No. 209.

the manager directly interested in livestock marketing. One method of maintaining the interest of an elevator manager in livestock shipping is to pay him a part of the commission in addition to his regular salary.

Sometimes the manager of the elevator is elected manager of the shipping association. The two organizations are distinct except that the manager is employed under a cooperative arrangement. Local conditions and the wishes of the producers interested are really the deciding factors in determining the type of livestock-marketing organization. Economy and efficiency and the other considerations mentioned must be coordinated.

The Producer's Contract.—Livestock-shipping associations which have tried the producer's contract are practically unanimous in its favor. It insures the company a fairly definite volume of business, and competitors find it less advantageous to resort to unfair practices in order to get the business away from the cooperative company. Under present practices, a person listing livestock for shipment often fails to deliver it or may bring more than he has listed. As a result the manager does not know the number of stock that will be delivered. If cars are loaded too heavily, losses are almost certain to occur. Light loading increases transportation costs and terminal charges. A member knowing that he must deliver his stock to his own company takes an active interest. All the market stock of all members being sold through the association would increase the volume of business. The larger the volume of business, the better the manager who may usually be secured.

Basis of Payment of Manager.—Practically all of the cooperative shipping agencies, except those buying stock outright, pay for management on a commission basis. Considerable variation exists in the ways in which this commission is computed, but in one way or another volume of business determines the amount. The two most common methods are to compute it on a hundredweight or per car basis. Occasionally it is figured on a per head basis, or as a certain percentage of the receipts from shipments.

The commission basis ordinarily works satisfactorily where the commission is paid to the manager. A peculiar situation exists where the livestock is handled by a cooperative elevator company which pays its manager a regular salary. In such cases the commission is usually paid to the company. Often, where this situation prevails, the manager considers shipping an unremunerative side line which takes an

undue amount of time from other business. Consequently he pushes the paying end of the business.

Some elevator associations have adopted a plan for keeping the managers interested which works out very satisfactorily. Instead of paying all of the commission to the association, one-half is paid to the association, and the other half to the manager in addition to his regular salary. The more business he secures, the larger his income. All managers interviewed who were receiving a part of the commission, perhaps one-half of a 6 cents per hundredweight charge, were enthusiastic about shipping livestock. Other managers with whom the matter has been discussed have spent considerable time in explaining that the cooperative shipping of livestock is an unprofitable and unsatisfactory side line for an elevator company.

Methods of Covering Losses in Transit.—Losses in transit are cared for by various methods. When the stock of each shipper is sold separately, each owner naturally bears any shrink in his own livestock. When the stock in a car is sold as a unit or by grade without reference to ownership, the shrink is prorated to each shipper on the basis of weight or number of head contributed to the shipment.

Loss in transit due to crippled or dead animals is cared for in various ways. A few associations ship all stock at owners' risk; some prorate losses against the shipments in which they occur; others carry commercial insurance; and still others have an insurance or sinking fund, created by deductions from receipts, which is drawn upon to cover losses.

Prorating losses against the shipment in which they occur works satisfactorily when losses are small. An unusual loss, however, if prorated against a single shipment would undoubtedly cause dissatisfaction among the shippers. Claims covering such losses may be collected from the railroads but only after considerable delay and expense. Commercial insurance is, on the whole, quite satisfactory, but is hardly so economical a method as the sinking fund. One or the other of these last two methods is the safest to follow, with the weight of opinion favoring the sinking fund.

Commercial insurance companies must, of necessity, charge rates that will cover all losses that may be expected, as well as overhead. The efficient shipper carrying insurance must contribute to pay the losses of the inefficient shipper. Carrying commercial insurance tends to greater carelessness in handling stock at local points. Several managers who carry or have carried commercial insurance are frank

in admitting that they are not so careful in loading, partitioning, and performing like services as they are when carrying the risk themselves. Since any loss adds to the cost of marketing, a form of insurance that will promote greater care in handling is most desirable.

The points against commercial insurance are the points in favor of the *sinking fund method*. As a rule, the latter is more economical and tends to greater marketing efficiency. The rates should be made a little higher than seems necessary until an adequate fund is created. If a large surplus is accumulated because of small losses, it may be prorated. The usual method of making a deduction for the sinking fund is to compute it on the hundredweight basis; a less common method is on a per head basis. A very satisfactory method, but one less used, is to take a certain small percentage of the proceeds from livestock sales. With this method the amount of deduction varies with the sales value of the livestock.

Home Grading, or Sale by Ownership or Mark.—Perhaps the biggest question a livestock-shipping organization must decide has to do with the general plan of marketing. Under one plan the animals are marked on the basis of ownership before shipping and are sold by mark at the terminal market. Under the other plan the manager uses his judgment in determining the grade of the animals and prorates returns on the basis of his own grading. Sale by mark was the first plan used by shipping associations, but home grading is rapidly becoming more popular.

The main argument for sale by mark, and the main argument used in the early organization of shipping associations, is that the producer gets what his stock brings on the market, less the actual marketing costs. Each shipper stands the shrink of his own stock, which is sold on its merits. He need not suffer if other shippers try shady methods to get bigger home weights or excessive fills at the terminal market.

There are a number of reasons why sale by mark might increase marketing costs. Extra time and handling is required at the local point in marking the animals. Separate weighing, yarding, and selling is required for each shipper's stock at the terminal market. This is likely to result in excessive shrinkage due both to the extra sorting that is necessitated and to the fact that there may be loss in weight due to the "break" of the scales when a number of small lots are weighed. Furthermore, large lots of animals ordinarily are sold to better advantage than small lots. The average number of shippers having hogs in each car shipped by the Nebraska organizations from

which records were obtained in 1923 was 10.3. This number indicates the extent of separate sorting and weighing necessary if cooperative shipments were sold by mark or ownership. The cost of this extra service is a deduction from the sales value of the livestock.

When home grading is done, and settlement made on the basis of the grades, a more capable manager is needed. He should have a good knowledge of market grades and of price differentials between grades. Furthermore, he must have the full confidence of his patrons so that no serious objections will be raised to his work. The arguments against sale by mark are arguments for sale by grade.

One further point might be made. Instructions to sell by mark do not always result in sale by mark at the terminal stockyards. A common practice among commission firms has been to sell the shipment as one lot, possibly sorting out a few of the badly off-grade animals. Price differentials are then applied in the office when the prorating is done. This is likely to result in unfair distribution of the proceeds. An association manager should be in a much better position to distribute proceeds fairly than it is possible to do in the office of the commission firm where weight differences are the basis for adjustments.

The preceding discussion applies particularly to the cooperative shipping of hogs. Cattle are more easily sorted, and are handled with less shrink at terminal markets. Consequently, sale by mark or ownership is to be preferred. Another reason for selling cattle by ownership is the difficulty in determining cattle grades and the great variation in the value of different grades of cattle.

Local conditions must again be the determining factor in choosing between the two plans of marketing. Only after the membership of the association realizes the advantages of sale by grade, and is willing to entrust the manager with new duties, should that plan be adopted. Those associations selling direct to packers have found it necessary to let the manager do the grading because that class of buyers refuses to handle shipments requiring sorting and weighing by mark.

Accounting Methods.—In perhaps no other type of cooperative organization is there such a dearth of adequate records as in livestock-shipping associations. Probably the principal reason for the neglect of accounting records lies in the very nature of the business and the simplicity of the form of organization. As has already been stated, little equipment is needed and therefore no capital is required. Each shipment is considered complete in itself. Actual expenses, and perhaps certain small assessments for reserve funds, are deducted from

the proceeds and the remainder is paid to the shippers. Each shipment is settled and closed. Many managers believe that no records except those showing settlement are necessary. The commission received by the manager is small, and he often feels that he cannot devote his time to bookkeeping—an arduous task to the inexperienced.

Many organizations have no semblance of a permanent record, unless a prorate sheet giving accounts due each consignor to a shipment, attached to the account of sales for that shipment, can be classed as a permanent record. In Nebraska at least, the majority of the companies that keep accurate records of their livestock shipping business are those which are engaged in some other line of business which requires complete records.

An adequate set of records serves several purposes. First of all, it inspires the confidence of members in their manager and in their association. The manager whose records are complete and accurate seldom has difficulty in settling differences with his patrons. The members appreciate an accurate report at their annual meetings. Such a report is news for the local paper and the best possible publicity for the association. An adequate set of records provides the association with a source of information on the relative costs of shipping to the different markets. Records will aid in determining the best methods of weighing, handling, and selling livestock.

The records may be simple and at the same time satisfactory. Various systems of records are used, but one of the most satisfactory is described in "Accounting Methods and Business Records for Livestock Shipping Associations," Department Bulletin 1150, United States Department of Agriculture. This system does not require an experienced bookkeeper but it furnishes essential information.

State and National Federations.—The need for a central organization to handle the problems of general interest to local associations has been met by the formation of state associations. Among the activities that can be handled better by the group representative than by the individual associations are transportation problems, legislation, terminal market questions, and the organization of new associations. A national federation was organized in 1919 but its activities have been limited.

At the Terminal Market.—For many years farmers have believed that the charges for selling livestock at the terminal markets have been higher than the service rendered justified. Comparatively few of the commission firms have become wealthy, but the business at every important terminal market is divided among so many firms that

most of them handle a relatively small number of cars per year. The competition between the firms has been so keen that the cost of getting business has often been unduly high. An increase in commission rates at any market has usually been followed by an increase in the number of firms.

The commission firms at each terminal market are organized into an association called a Livestock Exchange. This exchange makes its own rules for the conduct of the market and the business conduct of each member. For example, every exchange forbids the payment of rebates by its members, and limitations are placed upon the entertainment of shippers. Members who break the rules are often severely disciplined. Flagrant and repeated violation of rules is followed by expulsion. There is no question but that all or nearly all of the members of every exchange wish business to be conducted openly and honorably and in a way that will redound to the popularity of the market.

Unfortunately, the business practices followed by a few members have often brought criticism upon an entire exchange. Firms with too little capital have delayed the making of returns to shippers, and in that way have been able to operate upon capital furnished by producers. The failure of such a firm naturally results in heavy losses to the men so unfortunate as to have had livestock in their hands immediately preceding the failure.

At some markets there have been times when it was almost impossible for a feeder to buy cattle that had not passed from the shipper into the hands of a speculator. Too often the speculators have had underground connections with the commission firms. As a matter of course, the speculator or trader often aids the shipper by furnishing a market when the supply is greater than would otherwise be absorbed. This is particularly true of feeders and stockers. The speculator may hold them in his pens for a day or a week, or ship to some other market, but ultimately he usually sells at profit because he bought at the break in the market. It is safe to say, however, that the majority of traders at most markets have performed no real function, but have increased unduly the spread between the price received by the shipper and that paid by the feeder.

Cooperative Commission Companies.—The dissatisfaction of shippers with existing conditions led to a number of early attempts to market cooperatively at the terminals. A Missouri Grange fathered a short-lived selling agency at East St. Louis in 1874.

In March, 1889, the American Live Stock Commission Company

was incorporated under the laws of Illinois. The State Farmers' Alliance of Nebraska, Missouri, and Kansas, and the Kansas State Grange were the shareholders. The articles of incorporation provided that 65 per cent of the net earnings were to be paid to members as a patronage dividend on shipments, and 35 per cent as a dividend on stock.

"The organization began business in May, 1889, with a paid-up capital of $25,000. Cooperative Commission firms were established on the Chicago, Kansas City, St. Louis, and Omaha markets. On November 30 of that year $40,494 in profits was divided among the stockholders. In January, 1890, the capital stock was increased to $250,000 of which $49,000 was paid in. For the year ended December, 1890, the company collected at the four markets more than $101,000 in commissions and sold more than $2,500,000 worth of livestock. The manager of the Chicago company obtained a membership in the exchange and the company operated under this membership until after the first refund to shippers had been made."[4]

The exchange considered this return to the shipper of a part of his commission as a rebate, and expelled the manager. The courts sustained the exchange, and since the company could not operate without a membership it soon dissolved.

The most notable of all the early attempts to enter the terminal markets was made by the Cooperative Livestock Commission Company, organized in 1906. It was promoted by the Corn Belt Meat Producers' Association and the American National Livestock Association of the range country. An advance in commission charges, effective January 1, 1906, furnished the stimulus necessary to raise nearly $60,000 to start the new firm. Well-established firms were purchased at St. Joe and Kansas City, and a new company was established at Chicago. It started out with a large volume of business but was unable to handle it satisfactorily. The exchanges did not permit their members to have any dealings with the cut-rate cooperative, and threatened to boycott any trader or order buyer who dealt with the new firm. As a result, its only outlet was direct sale to the packers. It ceased business in 1908.

The Equity Cooperative Exchange entered the livestock commission business at St. Paul, October 1, 1916. It charged the regular commission rates. The surplus, after expenses and dividends on stock had been paid, was to be prorated to shippers. No patronage dividends were ever paid. The largest business handled in any one year

[4] Randall, C. G. Cooperative Marketing of Livestock in the United States by Terminal Associations. U. S. D. A. Technical Bulletin No. 57, p. 6.

was 3383 cars in 1920, which was 4½ per cent of the St. Paul receipts. In 1918 a branch was established in Chicago which handled nearly 2000 cars in 1920. The organization of another cooperative commission firm at St. Paul reduced the livestock business of the Equity Exchange. In 1922 the Farmers' Union of Iowa purchased the livestock business of the Equity Exchange at both St. Paul and Chicago.

The big accomplishment of the Equity Cooperative Exchange was not in the volume of business handled or direct savings to shippers, but in its influence upon business practice at St. Paul. Conditions at that market, particularly in the stocker and feeder section, had been unsatisfactory, and the Equity Exchange was in a position to investigate conditions and publish information. The directors of the Livestock Exchange were thus compelled to take action.

Farmers' Union Livestock Commission Firms.—The president of the Farmers' Educational and Cooperative Union of Nebraska, from the time of its organization as a state union in 1913 until he resigned in April, 1921, was C. H. Gustafson, a farmer from boyhood, a student of cooperation, and a man of fine natural ability.

The 1917 annual convention of the Farmers' Union passed a motion authorizing the president to appoint a committee of which he should be chairman, to investigate the feasibility of establishing a livestock commission firm at South Omaha and report their findings to the State Board of Directors. The committee met, adopted a plan which President Gustafson presented, and formally reported to the State Board of which the committee chairman was also chairman. The board of directors approved the plan and authorized the president to use $2000 of the none-too-plentiful funds of the state Union in establishing a livestock commission business. Mr. Gustafson spent no time in selling the idea to Nebraska farmers or in soliciting them for capital stock before starting business. No separate company was formed. The commission business became merely one activity of the state Union.

Unable to secure offices in the Livestock Exchange Building in South Omaha, the Union rented a first-floor room about two blocks away. The new firm opened for business April 1, 1917. The application of the Union for membership in the Exchange was rejected on the ground that the cooperative plan of prorating savings to shippers was in direct violation of the anti-rebate rule of the Exchange. The Union went ahead, and operated as an outlaw, observing with scrupulous care every rule of the Exchange save only that they planned to prorate savings.

The new firm faced an interesting situation. It had $2000, the confidence of a limited number of farmers, and the good wishes of many more. Opposed to it were not only individual commission firms but the Exchange as an organization. The Exchange rules forbade member firms to trade with non-member firms. To do so meant disciplining and possible expulsion. The Exchange membership represented millions of dollars and well-established trade connections. Every car of stock consigned to the Union was a car of stock which otherwise would have been sent to some commission firm with whom the shipper had doubtless had satisfactory business connections. It looked to men who knew the situation like a very one-sided proposition.

The new firm received some shipments from men who had confidence in the Farmers' Union. They were willing to take a chance. Local packers bought the consignments at regular prices. A little later connections were established with eastern packers so that the firm would have an outlet on days when local supply was greater than local demand. The *Nebraska Union Farmer,* a paper sent to every Union member, told about the sales of the commission company. Every carload of stock sold at market price meant added confidence and more business.

For several months business was so small that operating expenses were larger than income. Even some members of the board of directors shipped to other firms. Most men would have quit, but not Gustafson. The operating capital was reduced to $147. A new loan was received. Finally business suddenly increased, and when the end of the year came the Union had handled 2168 cars and declared a patronage dividend of 38 per cent.

The confidence of President Gustafson and the other men back of the plan was so great and the demand of livestock shippers in southern Nebraska so insistent that, before the Omaha house was really on a paying basis, a selling agency was established at St. Joseph. It opened for business September 1, 1917. It received a good volume of business almost from the beginning. In recent years it has been in the lead in the number of cars handled by commission firms at St. Joseph. Up to the end of 1927 it returned more than $713,000 to patrons. Upon August 1, 1918, the Farmers' Union Livestock Commission firm opened at Sioux City. It had greater difficulty in getting established than did the two older branches, but is now in a prosperous condition. It handled 5995 cars in 1927.

The Farmers' Union of Kansas organized a livestock commission

firm as a stock company which opened for business in Kansas City, October 1, 1918. The Colorado Union followed with a similar organization at Denver about a year later. The Illinois Union and the Missouri Farmers' Clubs sponsored a company which began business at East St. Louis in November, 1921. The Iowa Farmers' Union purchased the livestock business of the Equity Cooperative Exchange at St. Paul in 1922. All four of these firms did a satisfactory business in 1924.

The parent company, the Farmers' Union Livestock Commission Company of Omaha, deserves special mention not only because of its satisfactory service and remarkable growth, but because it opened the way for other cooperative firms. Table XXIII gives its record for eleven years.

The Omaha firm is now operated as a joint sales agency by the Farmers' Unions of Nebraska and Iowa, the Sioux City firm by the Union of Nebraska, Iowa, and South Dakota, and the St. Joseph firm by the Unions of Nebraska, Iowa, Missouri, and Kansas.

TABLE XXIII

FARMERS' UNION LIVESTOCK COMMISSION *

Year	Cars Handled	Percent of Market Receipts	Gross Income (Commissions, Interest, etc.)	Expenses	Savings—Net Income	
					Amount	Per Cent of Gross Income
1917	2,186	....	$26,781	$14,876	$11,904	44.4
1918	5,181	1.5	71,975	32,521	33,108	46.0
1919	3,874	3.7	57,829	28,807	29,021	50.2
1920	6,820	5.4	108,391	46,005	56,826	53.9
1921	7,653	6.7	137,252	46,707	90,545	66.0
1922	7,634	6.3	128,482	43,104	85,378	66.5
1923	10,177	7.9	162,294	48,395	113,898	70.2
1924	12,521	8.4	189,930	58,720	131,210	69.1
1925	10,867	8.0	82,233	53,059	29,174	37.0
1926	8,249	6.4	140,076	67,739	76,080	52.0
1927	7,421	....	131,686	74,826	56,860	44.5
	82,583		$1,233,929	$514,759	$714,004	

* The company started business April 1, 1917. The figures for 1917 are for twelve months ending March 31, 1918, and for 1918 are for twelve months ending March 31, 1919. The figures for 1919 are for the last nine months of that year. Beginning with 1920, the business year coincides with the calendar year. The incomes and savings were smaller in 1925 than in other years because the company charged less than the regular commission rate. The direct shipment of hogs to the Pacific Coast and to the Denver market has naturally reduced hog sales at Omaha.

Central Cooperative Commission Association of St. Paul.—Minnesota was one of the states in which cooperative livestock-shipping associations secured a strong foothold in the early development of the movement. It was, therefore, but logical that the associations of Minnesota, learning of the refunds paid shippers by the Farmers' Union Commission firms at Omaha, St. Joseph, and Sioux City, should decide to establish their own selling agency. A local association pays $25 for a membership and must buy one $25 share of stock for each fifty cars of livestock shipped annually. There is no contract. A member association may ship to whom it pleases. The lack of a binding contract has lost some shipments to the Central, but this loss has been more than recompensed by the increase in good will. The opponents of the company circulated false reports attempting to discredit it. Some local associations split their shipments between the cooperative and some other firm, and, as a result, eventually consigned all business to their own company. It was the best possible

cure for suspicion. A contract might have kept a few managers from accepting "presents" to transfer their shipments, but this loss is more than made good by increased membership and increased good will.

The Central can hardly complain of the size of its business. It handled 19,449 carloads, 24 per cent of the St. Paul receipts in 1921, its first year of operation. Although the company's commission charges were approximately 20 per cent lower than the regular exchange rate, at the end of the year the books showed a surplus of $19,124. Its total cost of operation was only 40 per cent of the regular commission charge. In 1926 the Association handled over 1,500,000 head of livestock and its sales totaled nearly $41,000,000. A patronage refund of 35 per cent was declared on commissions collected, and an 8 per cent dividend was paid on capital stock.

The Committee of Fifteen.—The success of the Farmers' Union Commission houses at Omaha, St. Joseph, and Sioux City was soon a matter of common discussion among livestock shippers. It helped to increase the general interest in marketing, particularly in the cooperative marketing of livestock. The American Farm Bureau Federation called a conference in Chicago to meet October 8, 1920, to discuss livestock marketing. This conference authorized President Howard of the Farm Bureau to appoint a committee of fifteen to study the question and report a plan for cooperative livestock marketing. C. H. Gustafson was chairman of the committee.

The report, commonly called the Committee of Fifteen Plan, was approved a year later by a national conference of delegates representing livestock organizations. It was really the plan which Chairman Gustafson had employed so successfully at Omaha, St. Joseph, and Sioux City, with the addition of an overhead agency. The four more important points of the plan were as follows:

1. Formation of producers' livestock commission associations at the principal terminal points.
2. Formation of subsidiary companies to handle the stocker and feeder animals which cannot be sold directly to livestock producers through the terminal commission association.
3. Organization of cooperative shipping associations — local, county, or regional—to be stimulated.
4. Organization of an overhead supervising agency to be called the National Livestock Producers' Association. The individual producers and cooperative shipping associations that are mem-

bers of the terminal commission associations are members of the National Association. Each terminal marketing association is entitled to a membership on the board of directors.

Producers' Cooperative Commission Associations.—The new national association started to organize commission agencies. The first one, located in East St. Louis, started business January 2, 1922. The second was opened in Indianapolis in May, and the third in Chicago, June 19, 1922. Three more were opened during the year, and in June, 1925, thirteen producer commission firms were in active operation in as many different markets.

Rapid Development of Terminal Sales Agencies.—The producers' commission agencies and the independent cooperative commission agencies have increased in number until in 1926 there were 25 of these agencies operating in 19 terminal markets. In that year they handled 160,000 carloads of stock valued at more than $295,000,000. There was an increase in the value of cooperative business and in the percentage of receipts at terminal markets handled by cooperatives each year compared with the year preceding from 1917 to 1926, inclusive. The savings for the ten years totaled approximately $5,000,000.

The cooperative marketing agencies are succeeding because they are efficient. Nearly all have a large volume of business, and this large volume has been one of the factors that has made possible the large savings. The cooperative agencies have apparently received as good prices for stock as have the regular commission firms.

Because of their large volume of business the associations have been able to secure recognition from railway traffic departments and improvements in service. Some of the associations have established claim departments which have been successful in collecting claims for their patrons.

The associations have also assisted in organizing local cooperative shipping associations and have given them assistance after organization. They have helped acquaint producers with market methods and market demands.

The Outlook.—It is hard to forecast the possible extent of the movement, but its friends believe that within a few years at least half of the livestock commission business will be in the hands of the cooperatives. This would not only permit of very definite savings, but might help regulate the flow of stock to market and prevent our present market gluts. Sellers and buyers would both be benefited if the buyers could have a fairly accurate estimate of the number of

feeder cattle to come to market, and the rate of flow. The same principle applies to other classes of livestock. An attempt at price control through regulating production would probably result in absolute failure, but a method of regulating the flow of stock to market is one of the problems that await the solution of the cooperatives.

National Livestock Producers' Pools.—The sale of feeder cattle and sheep through terminal markets involves additional costs over the sale of the stock from producer direct to feeder. In spite of these extra costs, most feeders are shipped to terminal markets because of the many obstacles to direct sale.

The National Livestock Producers' Association has taken orders from feeders and purchased stock on the range directly from the growers to fill the orders, billing the stock directly to feeders. In 1926 over 145,000 lambs and 11,200 cattle were handled in this way. From present indications the business will develop to the benefit of both producer and feeder.

Cooperative Meat-packing Plants.—A few attempts have been made to operate cooperative meat-packing plants, but on the whole they have not been very successful. Some of them were merely stock-selling schemes which had no possible chance to succeed. The fact may as well be recognized that the slaughter, cure, and marketing of a perishable food product such as meat is not a simple business. It is a type of business that a man must be in for many years, must grow up in as it were, in order to handle satisfactorily.

The meat-packing business is not only more efficiently handled than are many other types of enterprises, but the margin of profit is smaller. There is very real competition between the local packer and the national packers, and every farmer and nearly every local meat market in rural districts is a potential if not an actual competitor of the meat-packing establishments. The inexperienced cooperators can hardly hope to succeed in the packing business when old established, well-managed companies suffer such heavy losses as did the national packers in 1921. The time may come when cooperative packing plants will be as common in the Corn Belt as "bacon factories" are in Denmark, but that time is not yet here. Other enterprises offer much better opportunities at present for the success of cooperative endeavor.

SUGGESTED READINGS

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CHAPTER XX

WOOL

About three-fifths of our annual wool clip is produced in the states that lie west of the eastern boundary of Colorado. Nearly two-fifths of the remainder is produced in Texas and Ohio. Five other important wool-producing states which lie east of the Rocky Mountains are Iowa, Michigan, Missouri, South Dakota, and Indiana.

Wool Marketing Peculiar.[1]—The amount of wool handled annually in the United States is large, varying from 550,000,000 pounds to 750,000,000 pounds. The total valuation ranges from $112,000,000 to $350,000,000. Practically all this wool is bought and sold by private agreement. There is no established public wool market. Although there is no open public or auction market, a very large proportion of the wool passes through two or three leading centers. The marketing of wool is probably more concentrated than that of any other important commodity.

How Wool is Marketed.—For many years most of the wool in the Range States has been sold to eastern buyers either at shearing time or shortly afterward. When one man owns thousands of sheep his clip is large enough to warrant buyers visiting his shearing shed or warehouse and dealing with him directly. A part of the range wool is consigned to commission firms in Chicago, Boston, Philadelphia, St. Louis, and other important wool centers. In the Washington-Oregon-Idaho district, part of the wool goes to Portland, Oregon.

Wool selling is quite different in farm-flock regions from what it is in the Range States. Few farmers have any very large number of sheep, and many do not have any. It is necessary to assemble the wool in order that large buyers may inspect it, and so that it may be shipped in carload lots. The wool is usually purchased by country buyers who either sell to town merchants or hold the wool themselves for sale to representatives of the central market dealers.

[1] Adapted from D. A. Spencer *et al.* The Sheep Industry. Yearbook, U. S. D. A., 1923.

An agent buys such wool as his firm needs and ships it to some large center where it is graded on the basis of mill requirements, and finally sold to manufacturers.

Few farmers really know wool grades. This is not surprising since most country buyers quote only one price for wool and seldom mention grade. To them wool is wool without regard to quality. This simplifies the buying problem, particularly when the buyer himself knows little about wool grades. Under such a marketing system, some men get more than their product is worth, but others receive much less.

The woolen manufacturer buys only on grade. Someone must grade the wool and naturally receives pay for his service. Should the grading be done by the wholesale wool dealer, or should it be done at country points and in such a way that each wool grower is paid in proportion to the actual value of his fleeces? The failure of the local buyers to recognize quality, the high cost incident to their system of buying, and the belief that margins have sometimes been unduly high have resulted in a widespread cooperative wool-marketing movement.

Beginning of Cooperative Wool Marketing.—In the middle seventies, the Grange established warehouses in at least three states where wool was assembled in large quantities and sold direct to manufacturers. When other business enterprises of the Grange met with reverses and the membership declined, the wool marketing was abandoned and the warehouses passed into other hands.

The attempts at cooperative wool marketing which followed the Grange warehouse plan were naturally local efforts. There was no strong central farmers' organization to provide leadership. A group of farmers dissatisfied with local wool-marketing conditions attempted to better themselves through organization. Some of the associations were so informal that they were associations in little more than name. They really came into existence each year as the time for marketing wool approached, and disintegrated after a few weeks of activity. Other associations were formally organized with a constitution, by-laws, officers, and regular meetings. Although most of the organizations were small, they did secure better prices and gave valuable training in the methods and benefits of cooperative effort. Early local associations existed in Michigan, Ohio, Indiana, Kentucky, Pennsylvania, Illinois, and probably in other states.

One of these associations, which may be considered as representative of the group, has been described as follows:

"Of the sixty-odd wool marketing enterprises reporting to the United States Department of Agriculture, the Putnam County Wool Growers' Association of Greencastle, Indiana, seems to be the oldest. The farmers in this section have been selling jointly since 1885, although their organization has been little more than a general understanding that has been continued year after year. Any farmer that wished to list his wool for sale could do so. Each lot, however, has been handled separately, the cooperation being principally in the listing of wool and in attracting buyers by presenting an opportunity to purchase many fleeces with a minimum of expense. During the last three years the quantities of wool handled through the association have been 24,000 pounds in 1922, 19,000 pounds in 1923, and 20,000 pounds in 1924."[2]

Development of County, Regional, or State-wide Associations.—"About 1918 there appeared the regional or state-wide association for the cooperative marketing of wool. The development of this type of wool-marketing association was undoubtedly hastened by the suggestions of the Federal Government in connection with the World War. As will be remembered, wool was an important commodity during the war period, and the Government as a war measure took over the 1918 clip. In order to insure the handling of the wool with the greatest possible economy, it urged the assembling of wools at local points and the shipment in carlots to the central markets. It also announced prices and fixed margins for local and central dealers for the different kinds of wool. With a limit on prices the growers had much to gain in trying to reduce handling costs. A most promising field for action appeared to be that of obtaining the economies of large-scale operation. The first of the new type of wool-marketing associations appeared in 1918 in Ohio and Michigan. The following year state-wide pools were formed in Illinois, Iowa, and Kansas; in 1920 the Maine, North Dakota, South Dakota, and Wisconsin pools appeared, and in 1921 the pools in Indiana, New Hampshire, Oregon, Virginia, and Southwest Texas. In several instances these pools were conducted as Farm Bureau enterprises and without any special organization. In the last few years, however, separate organizations have been created, in most cases to function solely as cooperative wool marketing associations."[3]

In many other states county and regional pools were formed. In 1919 the farmers in eight Tennessee counties sold their wool in county-wide pools. In 1920 farmers in sixteen counties agreed to pool their wool, and the amount actually offered for sale was nearly three times as much as in the preceding year. The amount sold cooperatively

[2] Elsworth, R. H., and Payne, Ruth. Cooperative Marketing of Wool, 1922–1924. U. S. D. A. Mimeographed circular.

[3] Elsworth, R. H., and Payne, Ruth. Cooperative Marketing of Wool, 1922–1924. U. S. D. A. Mimeographed circular.

increased each year until in 1923, "there were 1600 Tennessee farmers in thirty counties who marketed 248,000 pounds of wool through county-wide cooperative pools. By this method they realized an increase of an average of 5 cents per pound more than prevailing local quotations at the time, or a total of $12,400." [4]

In 1927 twenty-six sales were held, at which 256,044 pounds of wool were handled. The number of consignors was 1559, and the amount of sales $97,739. The handling of the wool in these pools is relatively simple.

"Each farmer brings his wool in and has it weighed and graded. Each farmer is given a receipt for the number of pounds of each grade of wool he has. Then all the wool in the pool is sold on a sealed bid for each grade and the wool goes to the man bidding the most money. The buyer settles for the whole lot with the local marketing committee, and the committee in turn settles with each consignor for the number of pounds of each grade of wool he has in the pool. In this way the grower gets the best possible price for every pound of wool because he has the advantage of the premium which the buyer is always willing to pay for large quantities of a graded product." [4]

Somewhat different methods were followed in other states. Two extension specialists described county cooperative wool sales which they witnessed in 1919, as follows:

"Two hundred thousand pounds of wool were sold at the ten cooperative wool sales. Some sales averaged 7 and 8 cents more than buyers had bid in the country. Others carried only a 2-cent premium. Outside buyers had a tendency to boost prices in the immediate vicinity of a sale. At that the cooperative sale circuit shaded country-sold fleeces nearly 4 cents.

"Each man's clip was given a lot number and put by itself. Buyers made their inspection at any time during the scheduled sale dates. A sealed bid on each lot, be it one fleece or 1000 fleeces, was turned in to the local committee. Each consigner had the right to put a minimum price on his wool before the sale. The committee in turn had the right to reject any bids which they felt were unreasonable. With these exceptions the top bid on each lot bought it. The local committee weighed and loaded out each lot to the successful bidder, drawing a sight draft for the value of wool and bags.

"All the consignors of good wool were more than pleased. Some owners of burry, brashy, dirty wool were disappointed. Thus the sales were both a financial and educational success. Country wool buyers, of necessity, buy on a rather flat price to everybody. Poor

[4] Sims, Almon J. The Farm Journal, April, 1924.

wool goes high and good wool bears a discount. Buyers find that this method gives more general satisfaction. It pleases mainly because few sheep growers know the real quality and value of their goods. At one of the recent sales one consignor got 55¾ cents while his neighbor sold for 50¾ cents. The latter person did not understand the reason. The buyer explained the differences in quality, length, color, shrink, and character. He proved his statements with samples of the wool, finishing with the remark that the bright wool was the better buy at a nickel higher. Wool quality varies as do sheep, cattle, or hay, and those of us fortunate enough to hear the explanations profited greatly." [5]

The Ohio Wool Growers' Cooperative Association.—The War Industries Board took over the 1918 wool clip and, to prevent profiteering, licensed the wool buyers who were to sell the wool to the Government at a fixed price. The buyers offered Ohio producers from 60 to 65 cents a pound for their wool. This was a price much lower than the farmers, who knew the Government prices for wool, thought that they should receive. They believed that the wool could be handled on a much smaller margin than that allowed to the regular buyers.

Many of the large wool growers were acquainted and accustomed to work together in a producers' organization, the Ohio Sheep and Wool Growers' Association. A group of the growers asked the War Industries Board if there would be any objection to the growers' pooling their clip and selling it direct to the Government. They were told there would be no objection but that the wool must be assembled in warehouses at central points approved by the Board. They were further advised that to secure and finance a warehouse would require half a million dollars.

Not having half a million dollars, the farmers hunted for a man who owned a warehouse. They succeeded in interesting Louis I. Horkheimer, a wool dealer of Wheeling, West Virginia, who agreed not only to furnish the warehouse but also to act as sales agent.

About 275,000 pounds of wool were handled by the Ohio association in 1918. The average net price received by the growers was a little more than 72 cents. This was a very satisfactory increase over the prices which the buyers originally offered.

Non-member wool growers also profited because of the competition furnished by the Association. When the members began shipping their wool to Wheeling, speculator buyers increased their prices to

[5] Warner, K. F., and Posson, M. B. Cooperative Wool Sales. The Nebraska Farmer, Vol. 61, No. 33.

70 and 75 cents a pound. Encouraged by the success of the 1918 pool, 3500 farmers consigned more than 1,750,000 pounds of wool to the Association in 1919. The war had ended, and local wool buyers, predicting a decrease in the demand for wool, offered at first from 40 to 50 cents per pound. Later they increased their prices about 10 cents per pound. The Association members received 67 cents net per pound.

Before the 1920 wool clip was ready for market large shipments of foreign wool had been received and the post-war deflation was under way. The wool market was demoralized. Many growers held their clips, and others sold at sacrifice prices. The Ohio Wool Growers' Association disposed of all wool consigned to it, and was able to remit to the growers an average of 32 cents net per pound. One result of its success was an increase of more than 200 per cent in the volume of business in 1921 over 1920. A part of this increase was wool which had been held back in 1920, and a part of it came from other states.

In 1924 the association reorganized as the Ohio Wool Growers' Cooperative Association. The plan of reorganization included affiliation with the Ohio Farm Bureau Federation as one of its commodity departments. This was a logical development of the Ohio plan of using the Farm Bureau as a marketing agency. The Association not only sells wool for its members but functions as a sales agency for the Indiana and Michigan wool pools and for wool growers in Pennsylvania. Each member signs a continuing contract, agreeing to deliver his wool to the Association. The Association receives the wool, grades and sells it, and returns to each member his proportionate share of the net receipts.

A large warehouse at Columbus, where the wool is graded and stored until sold, is owned by a subsidiary corporation, the Ohio Wool Warehouse Company.

The development of the Association is given in Table XXIV.

The New York State Sheep Growers' Cooperative Association.—"The Government's suggestion regarding concentration of product preparatory to sale or shipment resulted in a slightly different form of organization in New York State than elsewhere. Fully organized county associations were in existence and functioning. These were federated into the New York State Sheep Growers' Cooperative Association which took over the market problems for its member units. Each unit is under agreement to the state association and a uniform marketing agreement has been adopted which is used between the local associations and their members. According to the terms of the

agreement each grower appoints the association of which he is a member "his exclusive agent to receive, grade, store, manufacture, and sell all the wool owned" by him. The producer authorizes the association to "execute and deliver" any papers and to do anything considered by the association necessary for the best interests of the producer. Furthermore, the association is appointed "lawful attorney for those purposes." Provision is made for the deduction by the association of all necessary expenses in connection with marketing the wools received and a charge of one-half cent a pound for the maintenance of the federation. The agreement continues from year to year, but may be canceled by either party by giving notice between November 15 and November 30 of any year. Liquidated damages for failure on the part of the producer to keep the agreement are placed at $5 for each breach of contract."[6]

TABLE XXIV

WOOL HANDLED BY THE OHIO WOOL GROWERS' COOPERATIVE ASSOCIATION, 1918–1927 * †

Wool Clip, Year	Quantity, Consignors	Handled, Pounds	Returns to Growers, Dollars	Average of Net Prices to Growers, Cents per Pound
1918	456	275,000	198,000	72.5
1919	5,680	2,084,000	1,172,500	67.0
1920	5,320	1,987,000	840,000	32.0
1921	11,400	6,227,000	1,947,500	29.0
1922‡	6,943	2,725,000	1,314,500	47.0
1923‡	9,276	3,744,000	1,933,200	50.5
1924‡	8,431	3,542,000	1,719,750	48.0
1925‡	10,300	4,555,852	2,000,000	45.5
1926‡	8,955	4,060,465	1,300,000	
1927§	7,229	3,138,849		

* Elsworth, R. H. Cooperative Marketing of Wool, 1920–1926. U. S. D. A.
† As reported by the management.
‡ Including wools handled for farm bureau members in Indiana and Michigan.
§ The 1927 figures are from "Agricultural Cooperation." Vol. 6, No. 3.

The history of this federation, which is composed of 39 county units with 1674 members, is set forth in Table XXV.

Producer-owned Sales Agencies.—The National Wool Warehouse and Storage Company, with headquarters at Chicago, was organized in 1909, to provide a producer-owned sales agency. The capital stock was largely owned by western growers. It handled wool shipped by large individual growers, by local associations, and by regional or

[6] Elsworth, R. H. Cooperative Marketing of Wool, 1920–26. U. S. D. A.

state-wide pools. This company and other somewhat similar companies have contributed very materially to the success of the cooperative wool-marketing movement. They have provided a necessary marketing step between the producer or local association and the wool manufacturers or other large buyers.

TABLE XXV

DEVELOPMENT OF THE NEW YORK STATE SHEEP GROWERS' COOPERATIVE ASSOCIATION

Year	Wool Handled, Pounds	Average per Pound, Cents		
		Gross Price	Expenses	Net to Growers
1920	411,929	36.3	4.3	32.0
1921	615,123	36.3	4.1	32.2
1922	532,821	45.3	3.7	41.6
1923	475,000	49.5	4.3	45.2
1924	478,515	53.5	4.2	49.3
1925	617,467	49.7		
1926	465,903	40.4		

Unfortunately, the National Wool Warehouse and Storage Company made too large advances to producers in 1920 and became financially embarrassed. They were unable to recoup their losses and as a result ceased to operate as a marketing agency following the sale of the 1924 clip.

The National Wool Exchange of Helena, Montana, now stands ready to furnish a grading and selling service similar to that furnished by the National Wool Warehouse and Storage Company. It provides warehouse service in Boston, Massachusetts.

The Ohio Wool Growers' Cooperative Association handles wool for other state and local associations as well as for its own members. In 1924 it received, graded, and sold the wool consigned by the members of the Michigan and Indiana wool pools. It has also received some wool from Pennsylvania.

The Pacific Cooperative Wool Growers' Association of Portland, Oregon, which is primarily a regional growers' association, has also handled consignments of wool for non-members. Producers and producers' organizations seem to prefer the warehouse and selling service of a producer-owned organization to that of the regular wool dealers.

Extent of Cooperative Wool Marketing in the United States.—The Bureau of Agricultural Economics of the United States Department of Agriculture has reports on file from eighty-five cooperative wool-marketing associations, which may be classified as follows:

Regional pools	22
Independent local associations and pools	38
Sales agencies	2
Other associations (handling wool incidentally)	12
Educational	11
TOTAL	85

This does not include all of the associations in the United States but does include by far the larger part of those that are most important. Not all of these associations furnished complete results. In the following table the figures in parentheses indicate the number of associations reporting each item:

TABLE XXVI

EXTENT OF COOPERATIVE WOOL MARKETING

Year	Number of Members	Wool Marketed, Pounds	Volume of Sales
1924	(51) 21,868	(71) 17,167,974	(71) $7,241,761
1925	(56) 25,056	(63) 25,184,587	(63) 9,781,158
1926	(54) 23,815	(62) 25,611,055	(55) 6,658,048

The large wool cooperatives are increasing the efficiency of their service and as a result are gradually growing larger. The small local organizations are making few if any gains.

The Canadian Cooperative Wool Growers, Ltd.—Cooperative wool marketing began in Canada in 1914. It was encouraged by the Government as a part of a plan to increase sheep production. At first the wool was sold ungraded from a number of central warehouses. In 1916 all the wool was graded and pooled in a few warehouses.

The Canadian Cooperative Wool Growers, Ltd., was organized in 1918 with headquarters at Toronto. It is a joint stock company which handles wool for the various local associations. The tendency has been to concentrate responsibility and authority in the central organi-

zation. For example, the local associations did not grade the wool carefully, and a part of it had to be regraded. As a result the central association took over all the work of grading. Since 1921 the pools have been Dominion-wide by grade.

The Canadian Cooperative Wool Growers, Ltd., is now the most important wool-marketing agency in Canada, handling about one-half the commercial clip. It operates at a very low cost. The present charge is 2 cents a pound for handling and marketing, and half a cent a pound for grading. This 2½ cents charge has not only been sufficient to pay all expenses, but has permitted the accumulation of a reserve fund and the prorating of dividends to growers. Each grower receives the average price paid by manufacturers for the wool of any given grade, less only the transportation and handling charges. It is an efficient system. Private marketing agencies must operate efficiently and economically in order to compete successfully.

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CHAPTER XXI

POULTRY AND EGGS

The total value of the eggs produced and of the chickens raised in the United States in 1924 was nearly $1,000,000,000, according to the agricultural census of 1925. The home consumption of poultry and eggs is large upon most farms, but in the year 1924 American producers sold more than 1,000,000,000 dozen eggs and 200,000,000 chickens. The income received by farmers from the sale of chickens and eggs for the seven-year period 1921–27, inclusive, was doubtless more than one-half as large as the income received from the sale of wheat during those same years, and the value of the chickens and eggs consumed on the farms where produced was probably greater than the value of those sold. The production of poultry and eggs is one of the most important farm enterprises in the United States.

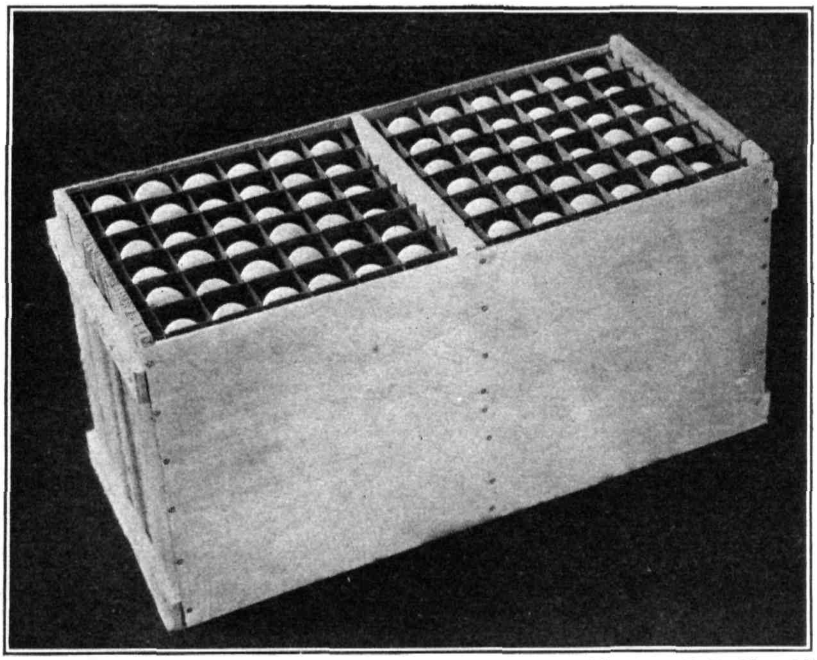
The importance of the poultry industry is seldom recognized because it is scattered over the entire country. There is something spectacular in the harvesting and marketing of citrus fruits, wheat, and cotton that magnifies their relative importance. Chickens are kept on more than 5,500,000 farms, and wherever chickens are properly cared for eggs are gathered nearly every day in the year. The small surplus of poultry and eggs sold from many farms makes a large amount in the aggregate and creates an important market problem.

Some Facts About Eggs.[1]—The discriminating consumer demands large, clean eggs of uniform color and of high quality. Strictly fresh eggs are, of course, preferred, but it is impossible for very many people except those who keep poultry to obtain eggs for use that are less than three or four days old. The people who live at a considerable distance from an egg-surplus district can not always obtain eggs that are less than two or three weeks old. The mechanics of assembling, transporting, and distributing any product requires time. Because the demand for eggs is much more uniform than is egg

[1] Adapted from Filley, H. C., and Boomer, George R. The Poultry Industry in Nebraska. Nebraska Agricultural Extension Circular 1418.

production, it is necessary for many eggs to be kept for several months in cold storage.

An egg is never better than when it is newly laid. It cannot improve with age, but it may easily deteriorate. The producer is, therefore, interested in the appearance and quality of his eggs when they reach the consumer. The consumer will pay only for that which pleases his eye and his taste. If eggs are not carefully graded with respect to size, color, and cleanliness, or if they are lacking in quality,



(Courtesy F. E. Mussehl)

FIG. 18.—Graded Eggs Bring Better Prices.

A case of "Extras" ready for market.

they can be sold only at the reduced price which buyers of low-grade products are willing to pay. The producer may sell his eggs to a dealer who pays a flat price for all eggs, whether they are large or small, white or brown, clean or dirty, fresh or stale, so long as they are not absolutely unfit for food. The ultimate consumer, however, ordinarily buys eggs upon the basis of grade, and the price he pays at any particular place and time is determined in part by the grade of the product. Somewhere between the hen and the consumer, the

TABLE XXVII

Tentative United States Buying Grades for Eggs *

United States Buying Grades	Average Weight	Shell	Air Cell	Yolk	White	Germ
United States Extras....	24 oz. net per doz. with minimum at the rate of 22 oz. for individual eggs.	Clean; sound.	Depth of $\frac{1}{4}$ in. or less; localized, regular.	May be visible.	Firm; clear.	No visible development.
United States Standards..	24 oz. net per doz. with minimum at the rate of 22 oz. for individual eggs.	Practically clean; sound.	Depth of $\frac{3}{8}$ in or less; localized, may be slightly tremulous.	May be visible; mobile.	Reasonably firm.	Development may be slightly visible.
United States Trades....	22 oz. net per doz. with minimum at the rate of 18 oz. for individual eggs.	Clean or dirty; sound.	Depth may be over $\frac{3}{8}$ in.; may be bubbly or freely mobile.	May be plainly visible; freely mobile.	May be weak and watery.	Development may be clearly visible but no blood showing.
United States Checks and Cracks....	No specified or minimum weight required.	Clean or dirty; checked or cracked but not leaking.	Condition of air cell, yolk, white and germ same as permitted in the grade of trades.			

* Egg Standardization Leaflet No. 2, U. S. D. A. Bureau of Agricultural Economics, October 3, 1925.

eggs are sorted and graded by someone who receives pay for the very necessary service that he performs.

Egg Grades.—Numerous systems of grading eggs have been devised. All base their grades upon size, cleanliness, condition of shell, and quality of shell contents. The Bureau of Agricultural Economics of the United States Department of Agriculture has recommended the following tentative buying grades for eggs: United States Extras, United States Standards, United States Trades, and United States Checks or Cracks.

These buying grades are intended for use in the purchase of eggs by storekeepers, local egg buyers, and other agencies that handle or purchase eggs from producers on a quality or graded basis at country buying points.

No provision is made in the United States buying grades for inedible eggs, for all such eggs should be returned to the producer. Among the causes for classifying an egg as inedible are the following: black rot, blood ring, seeping yolk, large embryo, moldy egg, musty egg.

The Bureau of Agricultural Economics also suggests that the producer should be given a report showing how his eggs graded, and the price paid for each grade. The following form is recommended:

EGG GRADING REPORT AND STATEMENT *

............................, ...

(City) (Date)

Name of Firm ....

Received from ....

Address ....

No. dozen eggs received ....

Buying Grade	Number of Dozen	Price	Amount
U. S. Extras	....	....	....
U. S. Standards	....	....	....
U. S. Trades	....	....	....
Checks and Cracks	....	....	....
Rejects or Loss	....	....	....

Paid in Cash .... Total Amount ....

Paid by Check No...................... Signed ....

* Egg Standardization Leaflet No. 2, U. S. D. A, Bureau of Agricultural Economics, October 3, 1925.

The tentative United States Wholesale Grades for Eggs and tentative United States Retail Grades for Eggs are somewhat more complicated than the buying grades. All are based upon the idea that the buyer has a right to know what he is buying and the seller should be paid for the product that he actually sells.

Influence of Grade Upon Price.[2]—The ultimate consumer does not buy a small, dirty, cracked, or stale egg because he prefers it to a large, clean, fresh egg. The low-grade egg is purchased not because it is particularly desirable but because it is cheap. Not enough high-grade eggs reach the market to supply all buyers. As a result the best eggs are sold to the buyers who are willing to pay the highest prices, and the eggs of the lower grades are kept for buyers to whom price is of primary importance. The dependence of price upon size and quality is well illustrated by price quotations in New York City.

TABLE XXVIII

Egg Prices in New York City,* January 7, 1925

Nearby hennery whites, extras	$0.67 @ $0.68
Extras	0.63 @ 0.65
Extra firsts	0.60 @ 0.62
Firsts	0.57 @ 0.59
Seconds	0.54 @ 0.56
Undergrades	0.43 @ 0.52
Dirties, No. 1	0.47 @ 0.48
Dirties, No. 2 and poorer	0.44 @ 0.46
Checks, fair to choice, dry	0.42 @ 0.44
Refrigerator firsts	0.46 @ 0.47
Refrigerator seconds and poorer	0.42 @ 0.44

* The Producers Price-Current, January 7, 1925.

The price difference between the better grades and the poorer grades is wider when fresh eggs are very scarce than is indicated in the preceding table, and is narrower when fresh eggs are abundant.

How Some Eggs Go to Market.—The West North Central group of states, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas, produce the most eggs, in proportion to population, of any group of states, and comprise our most important egg-surplus area. The production of eggs is a major farm enterprise on relatively few farms in the region. Although egg sales during the year may amount to a considerable sum, their value for any one

[2] Adapted from Filley, H. C., and Boomer, George R. The Poultry Industry in Nebraska. Nebraska Agricultural Extension Circular 1418.

week on the typical Grain Belt farm is not comparable to the value of a steer or hog or load of corn. As a result, the farmer has usually given little thought to the marketing of what he may consider a by-product of his business.

The farmer is not entirely to blame for his failure to consider seriously the quality and value of his product. If he is a typical farmer selling to a typical dealer he sells on a "case count" basis. The buyer quotes a flat price per dozen, and the eggs are counted to determine the total value. In recent years the pure-food and egg-candling laws of the various states have placed some restrictions upon the buying and selling of eggs that are absolutely unfit for food. It is not surprising, when all eggs sell at the same price, that the producer grows careless of the eggs he carries to market.

When the thermometer on the farmer's back porch records 90° F., the interior of his chicken house is likely to be several degrees warmer. With a low roof and little ventilation, it is admirably adapted to retain heat. Since it is easier to permit the cocks to run with the hens than to separate them, most of the eggs produced are fertile. Incubation starts in a fertile egg at 72° F. It proceeds best at a temperature of 102°-104° F. It can be readily seen that, under such conditions, when fertile eggs are laid in the morning germination is certain to start if the eggs are not gathered until evening. Sometimes the farmer is busy and the eggs are not taken to market for several days. If the eggs remain in a place that is warm enough, incubation may continue. If it does not continue the germ dies and the egg starts to deteriorate.

Many farmers do take good care of eggs and deliver them to their merchants in splendid condition. The eggs may be transferred into cases at the back end of the store and the cases left there for two or three days or possibly over Sunday. A closed store building on a hot summer day provides the necessary conditions for incubation.

The egg is sometimes far from the cold-storage warehouse to which it is consigned when the merchant sends it to the railway freight depot for shipment. A journey of one hundred miles in a closed box car on a hot day, or for that matter in an express car, is sufficient for the starting of incubation. Considering the large percentage of eggs that are fertile and the way in which they are handled, we can hardly expect that any very considerable part of the eggs received by produce dealers in the terminal markets of the Middle West during the summer months will grade "Extras" or "Firsts." Infertile eggs that are held for a few days in a warm place show a large air cell

which indicates a shrinkage of the contents and consequently lowers the grade.

The wholesale egg dealers must carefully sort and grade the eggs which they buy. In the summer months the wholesale dealer will often find that fewer than one-fourth the eggs that he purchases will grade extras or firsts. Some of the lower grades must be sold to bakers for immediate use or broken and frozen for future use, and oftentimes large numbers must be destroyed. If the wholesale egg dealer is to remain in business he must be careful not to pay for a case of eggs more than he can get for the eggs less his cost of handling and a fair profit. He, therefore, quotes to the retail produce buyer what may be termed an "average price" for eggs. He knows that he will lose on some of the eggs in nearly every case, and, therefore, he cannot pay a high price for the entire case. The local produce buyer gauges his buying price by the wholesale quotations for "case count" eggs. He may receive either more or less than his product is worth. The producer of quality products suffers, because the profit on his eggs must pay for the losses on the poorer eggs. The only way that the producer of good eggs can afford to market his eggs is on a graded basis. He should demand and receive full value for the product of his care and labor.

How Can We Improve the System?—Of course, it is possible to regulate by law the quality of eggs that may be sold. A beginning has already been made in several states by the enactment of pure-food laws. However necessary regulation may be, regulatory laws which touch a large number of people are seldom popular. They imply the employment of inspectors and increase the cost of government. It is usually necessary to overcome strong opposition in order to enact a satisfactory grading law, and after it is once enacted the wily politician will often find the advocacy of its repeal an easy way to ride into office.

It has been suggested that the farmer should be taught to market only fresh, infertile eggs during the summer months. Probably teachers could be secured to present the information in the course of a summer. The idea is so simple that it can be readily presented in a printed circular. The difficulty comes in interesting persons in the plan and in inducing them to give the eggs proper care. Good care necessitates additional labor. The farmer and his family are already too busy in summer. Unless the farmer believes that he will receive more for quality eggs than he now receives for case-count eggs, he is not likely to improve his present methods.

It is probable that produce buyers could establish and maintain egg standards by common agreement among all buyers. Unfortunately, there are obstacles to the consummation of such a plan. It would involve more labor than buying at a flat price; the net profits to the dealers would not necessarily be larger if all adopted the plan; much greater skill and knowledge would be required; and many of the village merchants who take eggs "in trade" believe that the present system brings them more business. Everyone who has had experience in getting people to cooperate in such a simple enterprise as area testing for bovine tuberculosis, which would undoubtedly be a benefit to all, can readily understand the difficulties in the way of all buyers' agreeing upon adopting a grading system which is primarily for the benefit of the producer. The producers must expect to work out their own problems.

Egg Circles.—Dissatisfaction over the low price paid for eggs by local buyers was responsible for the organization of local egg-marketing associations called egg circles, beginning about 1909. The plan upon which egg circles have been organized is very simple. The constitution of the ordinary association states the objects and the conditions of membership and provides for the election of the necessary officers. The by-laws contain rules governing the care, delivery, and sale of eggs. Usually each member is responsible for delivering his own eggs to the manager, but sometimes a collector is employed. The manager sells the eggs, keeps the records, and makes payment to the members. Eggs are usually sold to wholesalers or jobbers. In nearly all egg circles the necessity for handling a high-grade product has been recognized, but few of the managers have had training in egg grading. The looseness of the form of organization has made it rather difficult to enforce grading rules even where the manager has been competent and, as a result, any price advantage obtained by the majority of egg circles has been due to quantity rather than quality. A very large number of circles have been formed, but comparatively few have continued in business any considerable length of time. The members usually become dissatisfied because the results secured are smaller than they anticipated, and gradually return to their former methods of egg marketing. More successful circles have been formed in Missouri and Texas than in any other states. Perhaps the most important result of the egg circles was that they paved the road for a more efficient system of egg marketing.

Tulare Cooperative Poultry Association.—To Tulare County, California, belongs the credit of having the oldest egg-marketing association from which the United States Department of Agriculture has been able to obtain a record. It was organized in 1913 with about 100 members. The initial operating capital was secured by charging a membership fee of $25. The association served but a limited territory and confined its selling principally to the Los Angeles market. Its sales the first year exceeded $25,000; the second year's sales were double those of the first year; in 1926, 418,134 dozen eggs were handled, and total sales, including feed and supplies, approximated $287,000, which was somewhat less than for the two preceding years. The number of members at the close of 1926 was 214.

Poultry Producers of Central California.[3]—The Petaluma Valley, lying not far north of San Francisco, has been known as an important egg-producing district for more than twenty years. The climate is favorable for poultry. San Francisco, Oakland, Berkeley, and other cities consume many eggs. Producing eggs to supply this demand of the nearby cities proved profitable, and the size of the flocks increased until by 1912 some of them contained several thousand birds. Practically all of the flocks were of one breed. Large quantities of eggs of high quality and fairly uniform size and color were produced and sold to egg buyers in the larger local markets, usually on a "case-count" basis. In some instances a premium was paid for high quality. As production increased, and especially during the periods of greatest surplus, competition for opportunity to sell was usually keen among producers, and as a consequence prices were often forced downward, frequently to so low a point as to jeopardize the future of the industry.

Production exceeded local demand. No other outlet was open to individual producers. Express shipments to distant points were considered too expensive, and individual production was not in sufficient quantity to allow shipments by refrigerated freight. Out of the necessities of their situation came the desire of the producers to market eggs through their own marketing agency. They believed that through organization it would be possible to obtain a larger share of the consumer's dollar and also to secure recognition of the quality of their product.

The early attempts at cooperative marketing which were made

[3] Adapted from James, D. L. Cooperative Marketing of Eggs and Poultry. Bureau of Agricultural Economics, U. S. D. A.

by the poultry producers of Central California were unsuccessful, but in 1916 they brought into existence the Poultry Producers of Central California, San Francisco, which was incorporated under the then existing California cooperative law. The association is owned, controlled, and financed by its members. Administrative responsibility rests with a board of eleven directors who employ a general manager to execute the policies determined upon by the board. The association handles eggs exclusively. Originally it was organized with capital stock, but late in 1923 it was reorganized as a non-stock, non-profit membership association. It began functioning as such with the beginning of 1924.

It receives, grades, and sells the eggs of its members and handles them on a basis which represents actual cost for the services rendered. The territory from which the association receives eggs is divided into six districts: Sonoma, Alameda, Sacramento, San Joaquin, Santa Clara, and Santa Cruz. The eggs in each district are handled independently of the other districts. Each district has its own packing house, and receiving stations have been established at convenient places. The main office and packing plant of the association are located at San Francisco.

The steady progress which has been made in the growth of the organization since it was formed in 1916 is indicated in the accompanying table. That year the eggs from about one million hens

TABLE XXIX

GROWTH OF THE POULTRY PRODUCERS OF CENTRAL CALIFORNIA

Year	Stockholders or Members	Eggs Handled, Cases	Sales
1917	....	213,532	$2,382,444
1918	1000	270,313	3,712,523
1919	1201	315,251	4,680,065
1920	2193	460,303	6,959,542
1921	2839	662,598	6,905,802
1922	3159	618,475	5,730,000
1923	....	631,021	5,900,000
1924	2219	627,477	6,425,000
1925	....	782,070	8,080,067
1926	2683	869,324	7,935,110
1927	3191	977,116	7,916,002*

* Paid members.

were received by the association. Since 1916 the number has gradually increased until in 1924 the number of hens covered by contracts exceeded two and one-half million.

Upon becoming a member of the association each producer pays a membership fee of $10. This may be returned to him in the event of his going out of the business of producing eggs or withdrawing from the association. Members at the time of joining the association must sign a produce-sale agreement which covers the period from 1924 to 1934 with an annual withdrawal privilege. This agreement obligates them to market through the association all eggs except those that they may use for their own family consumption or those that they may use or sell for the purpose of hatching.

Under the terms of the produce-sale agreement the association takes title to the eggs when they are delivered at the receiving stations and agrees to sell them at the best price obtainable. The eggs received each week are pooled by grades, and each week's receipts are paid for separately. The price paid the producers depends upon the actual sale and the estimated value of that part of the week's supply which is carried over to the next week. When eggs are stored or shipped to eastern markets their value is estimated conservatively and payment made at the estimated value. When these eggs are sold the additional amount received is distributed to members at the close of the business year in proportion to their deliveries to the different pools of shipped or stored eggs.

Working capital for the association amounting to $400,000 has been built up by the deduction for that purpose of one cent a dozen from the sale price. It is an investment by the poultrymen in the business of marketing their eggs, which is later repaid with interest at the rate of 6 per cent per annum. Certificates are issued quarterly showing the amounts deducted, and these are a legal obligation for face value with interest from date of issue. Whenever the total working capital exceeds $400,000, repayment is due on the oldest outstanding certificates, either quarterly or annually as the board of directors may determine. The deduction of 1 cent per dozen amounted in 1927 to more than $293,000. Capital and reserves amounted to nearly $1,193,000 in December, 1927.

Egg cases are furnished to the members at cost. Each member must bear the expense of delivering his eggs to the receiving station. The expense of transportation from the receiving station to the central packing house is borne proportionately by the members in each district.

The factor that has contributed most largely to the success of the organization is standardization of its product. The eggs are sold by grade and according to weight and quality. Members grade their eggs to the best of their ability before delivering them to the association. At the packing house they are regraded into several well-defined grades, a practice that has made it possible for the association to build up a reputation for eggs of a high quality in the many markets in which its products are sold. At first no eggs were candled. Later, when the association began selling to retailers, candling became necessary. All eggs shipped east are both carefully graded and candled. The eggs handled by the associations are in good demand in the eastern markets, especially New York.

To this association belongs largely the credit for having instituted satisfactory differentials on the various grades of eggs. Constant vigilance is maintained by the officers in order that they may take advantage of every opportunity to market the product to greatest advantage. At certain seasons of the year, when the supply of eggs exceeds the demand of the local market, a large percentage of eggs is processed (immersed in oil compounds which sterilize the shell and seal all the shell pores) and placed in cold storage to await a more opportune time for their disposal. A sanitary egg-breaking department has been established in the San Francisco packing plant. An egg drier was developed, and through its use a large quantity of product is handled at a minimum labor cost, and an outlet is thus provided for low grade eggs.

A new type of egg-washing machine has been invented for the purpose of facilitating the handling of dirty eggs for immediate consumption in the local markets. Sanding machines, which remove the dirt from soiled eggs, have been invented and are proving helpful in reducing the percentage of eggs that would otherwise have to be sold as dirties at a lower price. The success of this association has created widespread interest in the cooperative marketing of poultry products.

Other Pacific Coast Associations.—Before the Poultry Producers of Central California was really a going concern, somewhat similar associations were in process of organization in at least three other Pacific Coast egg-producing districts. The Poultry Producers of Southern California began business in 1917 and handled 87,553 cases of eggs the first year. In the eight-year period 1920-27, inclusive, it handled nearly 1,000,000 cases of eggs. The earnings for 1927 were $17,000. The Poultry Producers of San Diego, Inc., organized

in 1917 and had 525 shareholders at the end of 1927. The sales for the year amounted to $376,973.

The Washington Cooperative Egg and Poultry Association was organized in 1917 with headquarters at Seattle. Progress was slow during the first few years. The Association did not really get well under way until about 1920. It has shown a steady, consistent growth since that time and to-day (1928) may be considered one of the strong egg-marketing associations. According to its 1927 report, it handled in the one year 960,486 cases of eggs at a cost of 3.8 cents per dozen, returned to the members an average net price of 26.2 cents per dozen, and had a net worth of $2,545,000. Egg sales for the year were $8,754,330, poultry sales $580,002, and feed sales $8,848,279. There is every indication that the Association will continue to grow. A weekly publication, *Washcoegg*, contains much timely poultry information and keeps the members informed of the activities of their company.

The Pacific Cooperative Poultry Producers, Inc., of Portland, Oregon, is organized as a non-profit association with authorized capital stock of $160,000. Each share has a par value of $10. The 1927 returns to members totaled $1,956,204. The net worth at the close of the year was in excess of $120,000.

Cooperation in the Terminal Markets.[4]—The Pacific Coast egg associations found it necessary to market a considerable share of their eggs in Eastern markets, particularly in New York. At first these associations worked independently of each other in their local markets and in establishing the sale of their surplus products in the Eastern markets, but they soon discovered that they were duplicating their efforts and competing with each other with disastrous effects. To surmount this difficulty, several of the associations on the Pacific Coast arranged in 1922 to market their eggs jointly in other than their local markets. They formed the Pacific Egg Producers' Cooperative, Inc., a New York corporation. It is a coordinating, non-profit selling agency. It handles all the eggs shipped east by the Pacific Coast associations, namely those of Washington, Oregon, and California, which in 1927 amounted to 1,216,088 cases. It also handled in 1927 834,461 pounds of egg meats and 56,894 boxes of poultry.

The main purposes of this organization are to secure better distri-

[4] Adapted from James, D. L. Cooperative Marketing of Eggs and Poultry. Bureau of Agricultural Economics, U. S. D. A. Statistics given are from annual reports of company.

bution of the surplus eggs from the various associations, to effect economies in marketing, to develop the export business, and to build up a permanent demand for Pacific Coast white eggs in various markets of the country. It is organized according to the same plan as the associations which comprise it, the difference being that it is an association of associations rather than an association of individuals. Its combined membership is about 12,000 commercial poultrymen and women, owning over 8,000,000 hens. This association sells eggs in a new way by an old method, that of the auction. Buyers of eggs come daily to the headquarters of the association where samples of the various grades of eggs for sale by the association are on display. The sale starts at a definite time and is conducted by an experienced auctioneer who receives bids for ten or more cases of the particular grade offered for sale. If the bids of the buyers appear to be too low, the manager of the association may withdraw the lot under consideration and hold it for future sale. This method of selling eggs has proved satisfactory. Large quantities of eggs are sold daily in a very short period of time, consequently selling costs are low.

A large percentage of Pacific Coast shipments to the East consist of fancy select white eggs which command a premium in the New York market. In fact, the best grades of Pacific Coast eggs have sold in that market for the highest price, exceeding by several cents per dozen the price paid for nearby New Jersey eggs of equally good, if not better, quality, since the eggs from the Pacific Coast were three to four weeks old while those from New Jersey points were but one to three days old. Uniformity as to grade, large volume, and good salesmanship were factors responsible for this condition.

Atlantic Coast Poultry Producers' Association.—New York City and its suburbs is the most important egg and poultry consuming center in the United States. Not only are eggs consumed in large quantitites, but there is an insistent demand for eggs of high quality. The producers who live near New York have a natural advantage in supplying this demand for high-quality eggs. Their product reaches the market when fresh and at a low transportation cost. Until the cooperative egg-marketing organizations of the Pacific Coast began shipping large quantities of high-quality eggs to New York, these nearby producers regarded this market for quality eggs as particularly their own. The New York consumer has liked the carefully graded eggs from the Pacific Coast, which reached New York in excellent condition.

The high standards set and maintained increased demand, and increased demand resulted in an increased price. Despite the handicap of a 2000-mile journey fancy western eggs were soon bringing a better price than the product of the nearby henneries.

New Jersey producers decided that they must organize and market a graded product if they wished to maintain price equality with Pacific Coast eggs. As a result of the necessity of meeting quality competition the New Jersey Poultry Producers' Association was organized August 9, 1921, with 438 members. In December of 1922 the name was changed to the Atlantic Coast Poultry Producers' Association because their logical territory extended far beyond the boundary of a single state. The plan of organization was about the same as that of the western associations.

Because the Atlantic seaboard is an egg deficit area the Atlantic Coast Poultry Producers faced a somewhat complicated market problem. Market outlets for eggs include special customers, local retailers, retailers in New York, Norfolk, and other cities, and the usual terminal market wholesale agencies. The association had difficulty in establishing and maintaining definite selling policies because of constantly varying conditions. It ceased operations in August, 1928.

Although the association was relatively short-lived and never handled a large volume of business, it nevertheless was responsible for important changes in egg marketing in the territory that it served. The quality of the eggs was improved and this improvement was reflected in terminal market prices and keener local competition.

Cooperative Egg Marketing in Missouri.—The Missouri Farmers' Association had its beginning in 1914. Local associations called Farm Clubs were formed. There was work for organized farmers to do. In 1925, only eleven years later, the 48,000 members of the Missouri Farmers' Association were operating 400 cooperative elevators, 410 livestock shipping associations, 300 produce exchanges, 10 cold storage companies, a grain commission business in St. Louis, and various other business ventures. Most of the elevator companies handle produce. The produce exchanges not only handle poultry, eggs, and cream, but also sell flour, feed, fertilizer, salt, and other staple commodities. They have a record of consistent progress that has been surpassed by relatively few farmers' organizations. Not the least of their successes is the cooperative marketing of eggs and poultry.

The Association began the marketing of eggs and poultry in 1917.

Farmers were dissatisfied with the prices which they received and believed that there was little competition among the wholesale produce buyers. They contended that the large dealers had divided the state into zones, and that the firm which dominated any one zone carefully avoided "poaching" on territory outside of that zone.

Local produce exchanges were organized which bought eggs, poultry, and butterfat, and sold staple goods which could be handled in quantity. The advent of such an association usually resulted in a very material increase in the price paid locally for eggs and poultry. The increase in price was often so great that the shipping association could not meet it and handle produce at a profit. The exchanges were usually able to keep going even if the volume of produce handled was very small, because the profit on the flour, feed, and other staples was sufficient to pay operating expenses. The cooperative elevators handled the produce merely as a side line.

The many advantages of car-lot shipping and selling were soon apparent, and in consequence concentration plants were established where eggs could be graded and where poultry could be fed and either dressed or shipped alive to eastern markets. In 1925 two of these plants were in operation, each one conveniently located, from a transportation standpoint, to from 25 to 40 local produce exchanges. At first each of the plants sold its products independently, but in 1923 a selling agency was established in Chicago, and in 1924 a branch office was opened in New York.

The Missouri Farmers' Association is now one of the largest shippers of eggs and poultry in the United States. In 1925 it handled about 550,000 cases of eggs and 12,288,000 pounds of poultry.

The support given the produce exchanges during the formative period was entirely voluntary. A producer paid a membership fee of $10 which gave him a slight financial interest in the success of the organization, but he could sell his produce to whomever he wished. The rapid growth of these exchanges is, therefore, indicative of the farmers' desire for better market conditions and their appreciation of the service which the exchanges rendered.

The development of the cold-storage plants has made evident the desirability of having a fairly regular volume of business.

"During the fall of 1923 a plan was developed by which producers would contract to deliver their poultry products to the Association for a period of five years. The terms of the contract were similar to those of other contracts now in use by cooperative marketing associations. A contract is made between the producer and

the Missouri Farmers' Association which contracts with the local units of the farm clubs to receive and deliver the products from the members to the district cold-storage plants. In this way the Missouri Farmers' Association becomes the contact agency between the producer and the jobber or wholesaler to whom the products are delivered by the cold-storage association. Under the terms of the contracts they do not become binding upon the signer thereof until at least 75 per cent of the poultry and eggs in the community in which the producer is located are under contract.''[5]

Cooperative Egg Marketing in Minnesota.—The majority of the members of the egg-marketing associations in the Pacific Coast States and along the Atlantic seaboard operate either specialized poultry farms or farms where egg production is the dominant farm enterprise. On nearly all farms of the Grain Belt, the poultry flock is one of several farm enterprises. Eggs and poultry are produced for home use, but on a majority of farms there is a surplus of eggs for sale during at least a part of the year. Under such conditions an egg-marketing association must of necessity cover a large area because nearly all Grain Belt farms are large. Missouri has worked out the problem with her produce exchanges which buy the eggs and poultry when they are delivered. Minnesota producers have sold poultry and eggs cooperatively by two distinctly different methods.

The cooperative creameries and livestock shipping associations of Minnesota have been discussed in preceding chapters. Most of the farmers who sell cream, livestock, or grain to a cooperative association also produce eggs for market. If such men become dissatisfied with the price paid locally, it is but natural that they should suggest that the creamery company enter the egg-marketing field. Whenever a majority of the members wish to increase the activities of a cooperative company, it is usually not long until action is secured. Creamery patrons can deliver eggs when they deliver cream. Creameries that handle eggs usually pay cash and ship them with butter to eastern markets.

The success of marketing eggs through a cooperative creamery has been variable, depending to a considerable extent upon the volume of the business. If enough eggs are received to warrant hiring a competent man to grade, pack, and market them, the venture is likely to prove successful. The trouble is that few creameries receive enough eggs to permit handling the business in a satisfactory way. A large

[5] James, D. L. Cooperative Marketing of Eggs and Poultry. Bureau of Agricultural Economics, U. S. D. A.

territory is needed, and this need has been recognized by Minnesota poultrymen.

Seventeen district egg marketing associations were formed in Minnesota between August, 1923, and May, 1925. Some of these associations confined their activities to a single county; others operated in as many as three or four counties. An association of the type organized requires a minimum of 800 or 1000 members in order to operate efficiently. The more restricted the area in which the association operates the better, providing a large enough membership can be secured. A large number of members gives a larger volume of business and a proportionately lower operating cost per unit, providing the district is not too widely extended.

Each of the Minnesota district associations was incorporated as a non-stock non-profit company. Each member signed a membership agreement in which he bound himself to sell all his market eggs through the association, with certain exemptions covering hatching eggs and breeding stock; to observe the rules for the care and delivery of eggs and poultry; and to pay liquidated damages in case he broke his contract by failure to deliver his product. The association agreed to sell the eggs and poultry of the member on the best possible market and to return to the member the total amount secured after deducting actual handling costs and a small amount for a reserve fund for the association, of which fund the members retained proportionate individual ownership. The membership fee was $3.00. A part of the money received from membership fees was needed to pay the expenses incident to organization, and the remainder was used for securing equipment and starting the actual handling of poultry and eggs.

A grading center was located in a town which had good shipping facilities and which was readily accessible to all parts of the district covered by an association. The territory included in a district was determined quite largely by the location of the grading center.

Trucks were used in assembling the eggs and poultry. These trucks picked up the eggs twice each week from the assembling points where they were left by the members. Most of the assembling points were cooperative creameries or cooperative elevators, but where these were not available stores and private dwellings were utilized for the purpose of receiving and receipting for the eggs and poultry of the members.

A special type of egg case that would hold 15 dozen eggs was sold to the members. When the egg cases were unloaded from the truck at the door of a grading room they passed into the hands of the

candlers who checked the hauler's record and proceeded to grade each case separately. A triplicate record was made, one copy of which was turned over to the bookkeeper, the second copy was placed in the member's case, and the third copy was retained by the candler. The candler's record showed the name of the member, the number of eggs in the case, and how many were placed in each grade by the candler. It was upon the basis of this record that payment was made to the members.

A state Exchange, which was really a federation of the district exchanges, was organized in July, 1924. It was located at St. Paul. The district exchanges became members of the Lake Region Cooperative Egg and Poultry Exchange, Inc., in much the same way that individuals became members of the locals.

The Lake Region Exchange furnished the following services to the district exchanges: (1) marketed the eggs; (2) standardized grades; (3) standardized accounting systems; (4) furnished field service; and (5) carried on organization work.

One enthusiastic district manager described the egg marketing business as follows in the summer of 1925:

"The state exchange inspects but does not regrade the eggs shipped by the district exchanges. The different grades are pooled and loaded on separate cars making full carloads of each grade. There are two pools each month; one extends from the first to the fifteenth, and the other from the sixteenth to the close of the month. The district exchanges are paid the exact amount for which their consignments sell, less only shipping and operating costs and the deduction for the reserve.

"Neither the state association nor any district association buys eggs. The member delivers his eggs to the association. They are graded and sold, and the net proceeds are remitted when the returns of sales are received. Each member is paid the price for which his product sells less transportation, handling and selling charges. If a member delivers inferior eggs, he alone suffers. The members who deliver a superior product secure the price for which the superior product sells. The exchanges, state and district, operate with much less capital than if the eggs were purchased and paid for when delivered. Each member actually finances almost entirely the sale of his own product."

The Lake Region Cooperative Egg and Poultry Exchange handled its largest volume of business in 1925. Receipts were materially smaller in 1926 and dwindled rapidly in 1927. By the end of that year not enough eggs and poultry were being received to permit the Exchange to carry out its program in an efficient manner.

The cause for the decreased receipts was dissatisfaction among the

members. Among the reasons given by farmers for failure to deliver eggs and poultry, the following are doubtless the most important: (1) Other dealers paid as high prices as did the Exchange; (2) unsatisfactory grading; (3) inconvenience of delivering eggs so frequently and at the designated assembly points; (4) delay in receiving remittances; and (5) dissatisfaction with management.

Price and convenience are two of the factors given most serious consideration by farmers in marketing their products. Cash upon delivery, with delivery at a convenient time and place may actually be a better bargain for the farmer than a slightly higher price with delivery at an inconvenient time or place and payment delayed until some future time.

Competition was keen among the buyers of eggs and poultry in Minnesota before the organization of the cooperative associations. According to the Federal Trade Commission one of the competitors of the Exchange lost money in egg merchandising during a considerable part of the period from 1919 to 1926. During this period the company secured a profit from handling poultry and in six of the eight years upon eggs placed in cold storage.

All or nearly all of the local grocery stores of the region are in the market for the producers' eggs. Many stores quote a price "in trade" one or 2 cents a dozen higher than their cash price. The merchants do not expect to secure a profit upon the eggs. Their object is to increase their sales to farmers and they believe that allowing a little more "in trade" than the regular market price for eggs is a good business policy. Many members of the associations believe that their entry into the field increased the prices paid for eggs by their competitors.

The leaders of the state and district exchanges believed that the surest way to increase the price of their product was to increase the quality. Members were taught how to care for eggs and how to grade them. As a result of this educational campaign a county that had but 9 per cent of extras in its first shipment was soon sending shipments that graded more than 50 per cent extras. The Rice County Association raised the per cent of "extra firsts" from 35 to 85 in four months.

The policy of the Exchange secured results. The Federal Trade Commission after investigating the Exchange and two competitors reported as follows:

"During the period of greatest volume, March to June, the prices realized by the cooperative were usually 2 to 3 cents higher than

either competitor obtained in 1925 and usually 2½ to 4 cents higher in 1926. . . . Its business was also operated almost as efficiently as theirs.''

The Exchange was continually handicapped because of insufficient capital. It could not place eggs in storage during the months of heavy production because the members demanded payment. Sales were necessarily limited to those buyers who would permit the Exchange to draw a draft at time of shipment for 80 or 90 per cent of the estimated value of the eggs. The shortage of capital was an even more serious handicap in handling poultry than in handling eggs.

Not all of the district associations were operated efficiently. As has been previously stated, there were two pools each month. In a period of declining prices, the district associations lost money upon all eggs which they had on hand at the end of a pooling period and carried into the next period.

Men engaged in trucking fruits and other commodities from the Twin Cities to country towns desire loads for the return trip. Many *of these men are now handling eggs, and have narrowed the margin* between the country buyer and the terminal market.

Many of the members expected greatly increased prices. The members of efficiently managed district exchanges who delivered quality eggs undoubtedly did receive an increased price, but for the reasons previously given the returns to the majority of the members averaged but little higher than prices paid by competitors. Members whose eggs graded low possibly received even less from the cooperative associations than merchants would have paid them ''in trade.'' Convenience of delivery and immediate payment were likewise influencing factors. The withdrawal of dissatisfied members decreased receipts and increased handling costs per unit.

When all conditions are considered it is not surprising that the Lake Region Cooperative Egg and Poultry Exchange was compelled to discontinue business. The closing of the Exchange did not, however, end cooperative egg marketing in Minnesota. The Land O' Lakes Creameries, Inc., undertook the handling of eggs in the spring of 1928, using the local creameries as receiving agents. Within a few weeks about 10,000 farmers were using this service. The eggs are candled and graded at Minneapolis, Duluth, and Thief River Falls. The eggs that grade Land O' Lakes quality have brought a premium of from one to 3 cents a dozen.

Extent of Cooperative Egg and Poultry Marketing.—The Bureau of Agricultural Economics of the United States Department of Agri-

culture received reports in 1925 from 53 cooperative poultry and egg associations which in that year handled 2,593,000 cases of eggs. Their total volume of business was approximately $40,000,000. These figures are incomplete although they do include the older and more important associations. States not previously mentioned, in which cooperative egg and poultry marketing associations have developed within the last few years, include Maine, New Hampshire, Connecticut, Idaho, Utah, Texas, New Mexico, and Nebraska. The associations which have been discussed may be considered merely as representative types of the many organizations now in operation. They furnish adequate precedent for other poultrymen who wish to organize.

Some Fundamentals for Success.—1. *Adequate volume of business.*—A large volume of business lowers the overhead cost per unit, permits the hiring of a competent manager, and assists in securing a better price for the product because buyers have an opportunity to get acquainted with it.

2. *Product must be carefully graded.*—The buying public will pay for quality. Poultrymen who produce quality eggs or poultry are entitled to quality prices. All members must be taught how to produce good eggs. The low price for which the low-grade eggs sell is usually a sufficient argument in favor of quality.

Observance of the following rules for the care of eggs on the farm will practically insure the delivery of high-grade eggs:

a. Keep one breed, and one only, of standard-bred chickens. The eggs will be much more nearly uniform than those from a mixed flock.

b. Produce only infertile eggs after the breeding season. It is seldom advisable to incubate eggs after the beginning of hot weather.

c. Keep clean straw or shavings in nests.

d. Gather eggs at least twice each day.

e. Keep eggs when gathered in a cool, dry place.

f. Keep eggs away from bad odors. Eggs absorb odors.

g. Deliver eggs often, at least twice each week.

h. Confine broody hens as soon as found.

i. Grade eggs before selling. Very small eggs, very large eggs, or cracked eggs can usually be used better by the producer than by anyone else. Dirty eggs can be washed and used in the home or sold locally for immediate consumption. Eggs that are to be shipped or stored should never be washed, as a washed egg will not keep fresh.

3. *Efficient management is essential to the success of any cooperative enterprise.*—The board of directors should be men who have a direct interest in the success of the association and who have had some business experience. They should appreciate the necessity of employing a competent manager and of providing working facilities. Accurate records are an important part of good management.

4. *Organization and control should be democratic.*—The financial benefits of the association should accrue to the members in proportion to the business furnished to it. Capital furnished should bear some relation to the use made of the association. Each member should have but one vote.

5. *Support of the members must be secured.*—Men are usually loyal to a successful organization. There is often an initial period when men remain loyal because they have confidence that their organization will succeed. The membership agreement or contract is often a decided help in keeping wavering members in line during the initial struggle. The recollection of signing an agreement to pay liquidated damages if eggs are sold outside the association will often render impotent the lure of an extra cent or two per dozen for cash upon delivery instead of after returns are received from the terminal market.

Future Developments.—The early development of the cooperative marketing of eggs and poultry took place upon the Pacific Coast where the producers are far distant from the great consuming centers in the eastern part of the United States. One of the next developments was along the Atlantic Coast where feed prices are high. The region that produces the most eggs in proportion to population is the western part of the Grain Belt. The success of present egg-marketing associations indicates that future developments may be expected in other important egg-surplus states.

The cooperative marketing of eggs and poultry has so far won its way because it is more efficient than the system which it replaces. The producer is paid for quality as well as quantity, the consumer receives a better product, and the marketing costs are decreased. The development of state associations in the great egg-surplus region of the Middle West will doubtless give the cooperatives a dominant position in the marketing and storage of quality eggs. This does not mean that they can "fix prices" or that they should attempt monopoly. Their success will depend upon their ability to reduce waste and to perform the marketing functions more satisfactorily than they can be performed by individual enterprise.

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CHAPTER XXII

COOPERATIVE BUYING

Grange Buying Agencies.—The Patrons of Husbandry, commonly called the Grange, was the first great farmer organization in America. It was organized in 1867, grew very rapidly from about 1870 to 1875, and decreased in membership and influence from 1876 to 1880. Since 1880 it has increased in strength and is to-day one of the most important and influential of farm organizations. In the period of its first development its largest membership was in the North Central group of states; in more recent years it has been strongest in the North Atlantic states.

The founders of the Grange at first emphasized the social, fraternal, and intellectual benefits of membership. The farmers were interested in financial benefits and very soon business cooperation became the leading feature and "one of the principal incentives for the growth of the order. Whenever a local group was formed, almost the first step taken was to adopt some plan of cooperative buying and selling. Often, especially during the early years, all that was done was to make arrangements with certain local dealers for special rates in return for the cash trade of all the members. This plan never worked very long and generally made way for the establishment of a local agency."[1] The purchasing agent received the cash orders of the members, forwarded them to the jobber, manufacturer, state agency, or other source of supply, and distributed the goods when they arrived.

Sometimes the granges of a county or district united in the formation of a buying and selling agency in order to gain the advantages that accrue from quantity marketing. Manufacturers and jobbers who would not consider dealing directly with a local grange could often be induced to grant favorable prices to the larger unit. Their two principal objects were to buy supplies at a lower price and to sell products at a higher price. The attainment of either object

[1] Buck, Solon J. The Granger Movement. p. 240.

meant more efficient marketing through a reduction in the cost of handling either manufactured goods or farm products. They believed that they could handle commodities for themselves at a distinct saving over the charges usually made by regular dealers. The total business of all the agencies was very large in 1873, 1874, and 1875, and unquestionably resulted in important savings to the members. The competition naturally tended to reduce the margins of local dealers and in that way distributed very widely the benefit of their activities.

Cooperative buying and selling by local granges very naturally was followed by state activities. In December, 1874, twenty-six state granges reported that they had adopted some kind of agency system. Many of these state agencies undoubtedly secured large savings for their members. Unfortunately, their early successes led them to extend their activities too rapidly and too far. Nearly all the state organizations established factories, none of which proved successful for any length of time. "The Patrons could buy patents and get their machines manufactured cheaply; but they could not prevent their alert competitors from getting control of improvements which threw their machines out of the market, and they lacked the capital to withstand the intense competition to which they were subjected by combinations of regular manufacturers."[2]

The collapse of the manufacturing enterprises carried down many of the local and state buying agencies. Most of them had sold goods at or near cost, and had no reserve with which to meet reverses. The savings effected by these agencies were undoubtedly much larger than the losses resulting from the failure of some of the enterprises, but that was given little consideration by members who lost confidence and dropped out. From 1876 to 1880 most of the local and state agencies went out of business. The effect of their competition doubtless had an influence upon prices and business practices for many years. The farmer and the business man had both learned that the farmer is not entirely helpless.

Grange Stores.—The National Grange did not take an active part in the organization or operation of cooperative companies until 1874. Some of their officers were very active during that year in trying to advance the business interests of the order. A part of the activity of the state granges in investing funds in state agencies and manufacturing establishments was due to the encouragement given by the national officers. A subcommittee investigated these agencies in 1875

[2] Buck, Solon J. The Granger Movement. p. 274.

and reported that many of them were unsatisfactory, and their methods of operation at variance with cooperative principles.

At a meeting of the National Grange held in November, 1875, the executive committee reported a system of rules for the government of cooperative associations within the order. These rules embodied the fundamental principles of the Rochdale Pioneers which are discussed in Chapter III. It was expected that purchasing agencies would be replaced by local cooperative stores, and that wholesale associations would be formed which would be owned by local associations on the same general plan as the English Society Wholesale.

Some Grange stores had been formed preceding this report. Nearly all were stock companies which expected to sell goods at cut prices, and return the profits to the owners of the shares of stock. Many stores granted credit to members, and thus decreased their working capital.

> "Corporations of this sort operated under serious disadvantages. Their low prices aroused the antagonism of neighboring merchants, and involved them in intense competition, and there was no incentive to hold the trade of patrons when better bargains were offered elsewhere. As a consequence, most of these organizations were either forced out of business or raised their prices and gave up all pretense of being cooperative." [3]

The advantages of the Rochdale plan have already been discussed (Chapter III).

> "It was a distinct misfortune both for the order of the Patrons of Husbandry, and for the advancement of cooperation, that the National Grange did not begin to propagate the principles of the Rochdale system until after the ineffectiveness and often disastrous consequences of the early attempts had disgusted many Patrons with the idea of cooperative stores and the rapid decline of the order had begun. As it was, the rules for cooperative associations issued by the National Grange were eagerly sought by Patrons everywhere and hundreds of cooperative stores, with a few more extensive associations, were organized wherever the Grange continued to flourish. In the course of time many of these failed, either through bad management or failure to practice some of the essential features of the system, but many of them had long and successful careers and were probably efficient factors in preventing the total extinction of the order of Patrons of Husbandry in the latter seventies and early eighties." [3]

[3] Buck, Solon J. The Granger Movement, p. 261.

One of the most successful stores of the Middle West was established at Olathe, Kansas, in 1876. Stock in the proposed enterprise, technically the Johnson County Cooperative Association, sold slowly although the value of each share was only $5. The state was new; the effects of the panic of 1873 were still felt, and cooperation was deemed by many an uncertain venture. When $385 had been subscribed, the directors borrowed $400 more for the Association on their own account, and soon opened for business with a $900 stock of goods. The merchants of Olathe organized for the uncharitable purpose of putting the Grange store out of business. Each store began selling some one or two commodities below cost, and planned to continue this until the new competitor should be driven from the field. If a Kansas City wholesale house had not come to the rescue of the store it could not have survived long. The members rallied to the support of their store and the fight kept the patrons loyal for many years.

The sales for the first three months were $4657.87, which seems unusually good for a stock of only $900. During the last quarter of the same year, the sales amounted to more than $15,000. The net profits for the first year were over $1300. The sales increased rapidly for the first few years, amounting to about $250,000 in the eighth year of operation. The profit or savings during that same year amounted to over $17,000. Within ten years the store grew into a regular department store, and was divided then and for many years following into grocery, dry goods, clothing, and hardware departments. The grocery department included a meat market, and some machinery was sold by the hardware department.

The organizers of the store were men of real business ability. Instead of paying out all the savings in patronage dividends they placed a part of them in a surplus fund. When the store was burned down in 1903, there was a loss of about $30,000 in addition to their insurance. The surplus enabled them to rebuild, and restock on the same scale as before without selling more stock or assessing the members.

The Olathe store was purely cooperative. The amount of stock which any one member could own was limited; dividends on stock were limited to 8 per cent; savings, after setting aside a reserve, were paid to Grange members in proportion to patronage and each member had but one vote.

Many stores were established in the North Central States, but few, if any, have had either as long or as successful a career as had

the store at Olathe. It has been stated that at one time there was at least one store in nearly every county in Ohio.

Many Grange stores were also started in the New England and Middle Atlantic groups of states. They had no previous bad local business record to live down in that region. Some of the stores prospered for many years, exceeding by far the average length of life of "regular" retail stores.

Many of the southern states reported successful Grange stores as early as 1882. The greatest success was won in Texas. When the cooperative stores became numerous, their representatives met and organized a wholesale association to take care of buying and to sell cotton.

"This association, which was also organized on the Rochdale plan, started with a paid-up capital of $250 in 1878 and grew steadily until in 1877 it had a paid-up capital of over $50,000, did a business of over $500,000 and divided almost $20,000 of net profits.

"Great as was this success, it was outdistanced by that of the local cooperative stores in the state. By 1882 there were 92 of these which held stock in the general association, and by 1887 the number had increased to about 150. The total capital of these stores at that time was about $750,000 and in 1885 their combined sales amounted to nearly $2,000,000 from which profits of over $220,000 were divided. Indeed the success of the cooperative movement in Texas was so great that the business interests combined in 1885 and secured a change in the laws which prevented the further organization of local associations."[4]

The Farmers' Alliance.—The Farmers' Alliance fostered cooperative buying for a brief period in the early nineties. This interest was short-lived for the organization soon turned to political action as a means of securing relief from economic ills. For several years during the middle nineties cooperative buying presented small opportunities for savings. Many merchants were in financial distress, competition was keen, and margins were small. Since the village stores which operated on a cash basis offered little service, the opportunities afforded a cooperative for transacting business at a lower cost were slight.

Farmers' Union Leadership.—The Farmers' Educational and Cooperative Union, usually called the Farmers' Union, is mentioned in the chapters which discuss cotton marketing, marketing dairy prod-

[4] Buck, Solon J. The Granger Movement. pp. 265–266.

ucts, and the cooperative marketing of livestock. This organization was started in 1902. Its primary purpose is to improve the economic condition of the farmer through education and the operation of farmer-owned business enterprises. Its aggressive business program was doubtless the primary factor which aided its early development. In the South, emphasis was placed upon such practical objectives as the storage and marketing of cotton and the improvement of the credit and mortgage system. Farther north, cooperative elevators cooperative livestock shipping, cooperative creameries, and cooperative buying have received attention.

The Farmers' Union is one of the few organizations which has recognized that efficient buying is of as much importance to the farmer as is efficient selling. One reason for the common failure to recognize this fundamental truth probably arises from the fact that the farmer markets in quantity and buys in driblets. The farmer is likely to sell the major portion or possibly all of any one product, such as wheat, corn, hogs, or cattle, at one time. He buys supplies every week, and often two or three times a week. The sum of his purchases usually equals or nearly equals the sum of his sales. Relatively few farmers accumulate any great amount of savings invested in other than farm property. The investment in bare land, even where a farm has been purchased, represents but a small part of the farmer's total income. The major part of the income has been used to buy farm machinery, building material, mill feeds, groceries, furniture, clothing, and other supplies. Any saving in buying actual necessities permits the purchase of comforts or luxuries. Efficient marketing for agriculture includes efficient buying as well as efficient selling.

The state organizations of the Union have consistently advocated the advantages of the car-lot buying of such staples as mill feeds, flour, tankage, coal, fence posts, wire, binding twine, apples, and other similar commodities. The state organization, either directly or through a subsidiary company, forms contacts with selling agencies. The secretary or purchasing agent for a local lists orders and perhaps combines them with orders from a nearby local to make up a car-lot shipment. Purchasers are usually required to make a deposit when goods are ordered. They are notified when the car arrives, and are usually prompt to claim the goods for which they have paid. The growth of car-lot purchases in any locality is usually followed by the erection of a warehouse, thus providing for the temporary storing of goods.

The savings upon shipments of this type come from the following sources:

1. Discount for cash payment.
2. Discount for quantity purchase.
3. Saving in freight on car-lot shipments.
4. Low overhead cost.

Goods delivered from a freight car directly to the consumer escape in part or in whole many of the charges which the local merchant must of necessity include in the selling price of his goods. These expenses include rent, heat, light, delivery, credit, taxes, and the additional labor of handling small orders.

The story of what the Farmers' Union actually did in one state can be used to illustrate the possibilities of cooperative buying when efficiently handled and aided by a large organization. Somewhat similar developments took place in several states at about the same time.

The Nebraska State Union was organized in December, 1913, with about 5000 members. A State Exchange was established in the summer of 1914 and during the remaining months of that year handled business amounting to about $60,000. It increased rapidly for several years as is indicated in the following table.

TABLE XXX

Nebraska Farmers' Union State Exchange

Year	Volume of Business	Year	Volume of Business
1914 (Part of year)	$60,000	1917	$1,800,000
		1918	2,720,000
1915	320,000	1919	3,000,000
1916	1,000,000		

The aim of the Union officials was to effect a savings for the members rather than a profit for the Exchange. The margin of gross profit was, therefore, kept as small as was consistent with safety. In each of the six years, 1914–19, inclusive, a small profit was earned which was used to finance the expanding business. It is impossible to estimate the actual savings to farmers during those years but they were apparently large.

The business was operated upon a very small capital. In 1916 it was only about $10,000. On March 31, 1919, the capital stock, reserves, and surplus amounted to $169,000.

When the State Exchange began business in 1914 there were few cooperative stores in the territory which it served. The success of cooperative buying through a purchasing agent or through the farmers' elevator company induced members of the Farmers' Union in many localities to organize cooperative stores. It is generally believed that cooperative stores can best be served by a cooperative wholesale house. It was therefore argued that the State Exchange should develop into a wholesale house to serve the retail stores. This would necessitate considerable capital because goods must be carried in stock to supply orders from the retail stores.

The Farmers' Union State Exchange was organized as a separate corporation June 30, 1919. It took over the business developed by the State Union, and sold stock before and after organization, amounting to $715,375. The figures already given for the 1919 business include that handled during the first six months by the State Union and during the last six months by the new corporation.

The manager and directors of the new company were optimistic. They had a going business which had been growing rapidly, and which had each year shown a profit. The number of cooperative stores in the state was increasing and the number of members of the Farmers' Union was nearly 40,000. Each member was a potential customer.

Within a year of the time that the new company was organized, deflation began. Sales decreased and prices fell, but expenses were reduced with difficulty. For the next three years losses were reported as follows:

1920	$107,509.39
1921	182,053.39
1922 (Approximated)	85,000.00
Total (Approximated)	$374,562.78

This loss was one of the heaviest ever suffered by a cooperative company in the Middle West. It amounted to more than one-half of the capital, and unfortunately a part of this capital had been subscribed in rather large amounts by persons who needed an income from their savings.

Vigorous efforts were made in 1921 to move goods, but the farmers

were in no position to buy machinery or clothing or canned goods even at reduced prices. In many lines where demand would normally be light, stocks were heavy. Nearly two years after the depression began it was reported that the Exchange had on hand 1200 gallons of ketchup, a large quantity of condensed milk, 3 tons of cocoa, and 2 tons of bacon grown moldy in storage—all of which had been purchased to sell to farmers.

A change in management during 1922 and an increase in the purchasing power of the farmer assisted the Exchange in getting into a better situation financially. Stocks were reduced, rents decreased, salaries cut, and sales increased. The company has announced profits as follows: 1923, $9600; 1924, $20,647; 1925, 36,633; 1926, $34,222; and 1927, $49,096. In order to get back upon a dividend-paying basis the par value of each share of stock was cut from $25 to $12.50 which was a loss of exactly 50 per cent for each stockholder in addition to his loss of interest for at least five years.

The following reasons, and doubtless others, have been advanced to account for the heavy losses:

1. The deflation.
2. Too heavy buying. Inventories increased from $293,938, March 31, 1919, to $630,556.13, December 31, 1920, after deducting over $60,000 on the later date for depreciation of goods.
3. Careless buying. Not all goods purchased were of the kind demanded by farmers.
4. Heavy overhead. This includes rent, salaries, and various miscellaneous expenses.
5. Various changes in policy relating to the purchase of goods and the price to be charged. The retail stores wanted to buy at a price lower than that quoted individuals or local associations. Many of the members who had helped finance the Exchange did not live close to a cooperative store and wished to buy directly. Because of the cost of local freight, many stores in western Nebraska said they could not afford to buy of an Exchange located in Omaha except in car-lot orders. The Exchange made numerous changes in its selling policy in an effort to satisfy everyone.
6. The stores did not own the Exchange and, therefore, felt little obligation to buy from it.
7. The board of directors had little experience in conducting a large wholesale business.

Before censuring cooperation for the losses suffered by the Exchange, critics should remember that many non-cooperative firms lost heavily during the same period. Doubtless the first four causes which are mentioned as being responsible for the Exchange losses were largely responsible for the losses in private business enterprises during the same period.

Some Business Facts.—The cost of conducting a retail business has increased during the past thirty years. The buying public has been taught to demand service. Among the more common services may be listed "free" delivery, liberal credit, sufficient sales people to handle business promptly at rush hours, the exchange privilege, and various costs incident to carrying out the slogan, "The customer is always right." Style changes have become frequent, and as a result losses upon out-of-date merchandise are often large. The general appearance of stores has also improved. Plate glass windows, beautiful show rooms, velvet carpets, luxurious rest rooms, and free entertainment all add to the pleasures of shopping but entail an expense that is ultimately added to the price of the goods sold.

The joint committee of Agricultural Inquiry appointed by Congress in 1921 investigated the cost of marketing over a period of years. The following table was compiled from their data and gives the average percentage of gross profit, operating expense, and net profit for the years 1916 to 1921 inclusive.

TABLE XXXI

PROFIT AND OPERATING EXPENSE IN DIFFERENT TYPES OF BUSINESS

Type of Business	Net Sales = 100 Per Cent		
	Gross Profit, Per Cent	Operating Expense, Per Cent	Net Profit, Per Cent
Men's clothing	30.71	25.22	5.49
Hardware	24.92	19.68	5.24
Shoes	31.13	24.71	6.42
Groceries	18.35	15.10	3.25
Dry goods	32.64	26.52	6.12

The published results of other investigators indicate that the preceding figures may be considered fairly representative. The time, the locality, and the type of stores selected are three factors in influ-

encing a variation in gross profit and operating expense. The University of Nebraska found that the gross margin of 27 retail grocery stores was 23.68 per cent in 1922 and the gross margin of 43 retail grocery stores was 22.65 per cent in 1923. The net profit was 2.54 per cent of sales in 1922, and 2.53 per cent in 1923. These stores had an average turnover of 8.37 times in 1923. Although a net profit of 2 or 3 per cent on sales is not large, the return on the invested capital of the stores studied was very satisfactory because of the high annual turnover. The knowledge that some stores do secure excellent returns is largely responsible for the disproportionate increase in small retail shops in recent years. Very many of these may be aptly termed "hope stores" and are started with little capital and with inadequate business experience.

Statistics compiled by R. G. Dun and Company show that for the four-year period 1921–1924, inclusive, there was 82,661 failures in the United States, an average of more than 21,000 per year. The mortality among retail stores is far higher than is indicated by these figures. Few men wish to be foreclosed. If a business does not pay, it is usually either quietly closed out or is sold to someone else. The owner may have lost most of his capital, but he has avoided becoming a bankrupt. More than one-third of the failures are due to incompetent management and another third to lack of capital.

Why Cooperative Stores Failed in 1920–21.—The failure of many cooperative retail stores during the period of post-war deflation is often cited as a proof that cooperative buying is an unsafe venture. If all men who contemplate starting a retail store followed the same logic there would soon be a dearth of retailers. Many cooperative stores have failed, as have also many independent stores. Among the reasons for the failure of cooperatives the following are most important.

1. *Undercapitalization.* Too little capital at start and no increase when the price of goods increased.

2. *No reserve.* Savings in prosperous years paid out as patronage dividends.

3. *Liberal extension of credit.* A cooperative enterprise should not ordinarily extend credit.

4. *Failure to "follow the market up."* When prices were rising most cooperative stores based their selling price upon the actual cost of the goods instead of upon replacement value. They did not, therefore, gain any advantage from the price increase. When prices fell they had to "follow the market down."

Let us suppose that in 1915 a store had a capital of $5000 and a $5000 stock of goods. Prices rose. As goods were sold, they were replaced with similar goods at a higher price. No new capital stock was sold and no effort was made to build up a reserve. The patrons during this period purchased goods at the usual mark-up over actual cost. As prices increased, the debts of the store increased. In June, 1921, a stock very similar to the $5000 stock of 1915 had actually cost $12,000, and the company owed $7000. Prices fell, and business declined. The actual value of the stock dropped to $7000 within two years. The entire paid-up capital of the store was lost. The patrons who rejoiced over buying goods cheap when prices were rising branded cooperation as a failure. Good business demands that a reserve must be accumulated when prices are rising rapidly, because prices sometimes fall more rapidly than they rise.

5. *Too large a stock of high-priced goods.* Retailers as a whole were overstocked in 1920.

6. *Poor manager.* Many cooperative stores hire inexperienced managers or men who have not succeeded when in business for themselves. A man who cannot run his own business is not likely to be successful in running a business for someone else.

7. *Unsatisfactory board of directors.* The directors must keep in close touch with the business. They must demand frequent reports of the manager and know whether the business is gaining or losing. At least some members of the board should know the fundamental principles of cooperation and be well grounded in good business principles.

When we get down to fundamentals it is readily seen that the causes which contributed to the failure of cooperative stores are not so very different from the common causes of failure of ordinary business enterprises. The preceding list of causes, with the possible exception of the extension of credit, may very properly be considered as subdivisions of either too little capital or poor management.

When a cooperative store failed for any one of the first four reasons, the greatest loss suffered by the community was the shaking of its faith in cooperation. It is true that the stockholders lost and that sometimes men who signed company notes lost. The men who secured goods at a price below replacement value were the gainers. Unfortunately, few men lost in exact proportion to the amount of their purchases.

The lesson to be learned from these failures is not that coopera-

tion is not adapted to buying, but that a cooperative enterprise should follow the principles of cooperation and good business.

A Cooperative Wholesale House.—The Cooperative Central Exchange of Superior, Wisconsin, was organized in 1917 by fifteen retail cooperative societies. It commenced business in September of that year with a capital of $480. The sales for the first four months amounted to about $25,000 and the net gain to $268.

The growth has been gradual but steady. At the end of 1926 the number of member societies had increased to 74. The sales for 1926 were $1,048,293, the gains $11,648, and the net worth at the end of the year was $57,398.

The Exchange has not limited its activities to enrolling new members and selling goods. An auditing department is maintained which has installed a standardized system of bookkeeping in the member stores. It audits the books of the stores periodically and gives the managers many helpful suggestions. The members have greater confidence in their stores because of their confidence in the audit service.

The Exchange publishes a monthly magazine, the *Cooperative Pyramid Builder*, as a part of its educational program. It also provides an annual Short Course in Cooperation, two months in length. This course is given for the primary purpose of training employees, but other persons who are interested in cooperation may attend. The Exchange has also been active in promoting consumers' cooperation through membership in the Northern States' Cooperative League.

Some Large Cooperative Enterprises.—The Grange League Federation Exchange with headquarters at Ithaca, New York, supplies feed, field seeds, fertilizers, and various other items to cooperative stores and business agents. It did a $21,000,000 business during the year ending June 30, 1928. The paid-up capital is $774,220. The gross sales of the Eastern States Farmers' Exchange at Springfield, Massachusetts, totaled $7,723,000 in 1927. Their surplus at the close of the year was $172,000. The Ohio Farm Bureau Service Company, located at Columbus, Ohio, was organized in 1923. It is owned by the Ohio Farm Bureau. In 1927 it handled a $4,573,000 business upon which there was a net gain of $123,268. In spite of the many failures which may be chronicled and which are regularly referred to by its opponents, cooperative buying does succeed when certain well-established principles are followed.

A Place for Cooperative Buying.—No cooperative enterprise can succeed unless it performs some essential service more satisfactorily

than it is performed by individual enterprise. The cooperative store must, therefore, sell a superior grade of merchandise, give better service, or conduct its business more economically than do its competitors.

The cooperative store will usually do well to handle only standard goods for which there is an established demand. The opportunity for developing a trade in superior goods is limited. The sale of style goods may well be left to specialists.

One reason for the wide margin taken by retailers is the cost of service. So long as this service is apparently "free" the consumer will naturally take all that is offered. The competition between retailers to win trade by emphasizing service is so keen that a cooperative store can hardly hope to surpass them.

It has been said that less than one per cent of our population can afford to ignore the question of price. The cooperative store which succeeds will ordinarily succeed because it handles the goods of the quality most in demand and is able to effect savings in handling by restricting "free" service. The members of a cooperative buying organization must understand the reason for wide retail margins and that the principal opportunity for reducing the margin is in reducing service. Consumers who buy in driblets and who demand credit, free delivery, and obsequious attention will not be satisfied with cooperative buying. Savings are usually possible only when the consumer does certain things for himself instead of paying the retailer to do them for him.

The increase in the number of self-serve grocery stores is an indication that many consumers are very willing to perform certain services for themselves if by so doing they can effect a material saving. Possibly these stores are making cooperative stores less necessary. One limit to their usefulness is in the handling of goods upon which the manufacturer fixes the selling prices. The cooperative store charges the regular price for such goods, and returns any saving over cost of handling as a patronage dividend.

A condition which apparently often exists in the marketing of perishable fruits and vegetables is indicated in the following Associated Press item which was published under an August 26, 1925, date line.

"Cantaloups are being sold on Omaha railroad sidings by the carload for a quarter of what the freight costs are on each car, according to Omaha fruit men who report the great influx of home-grown melons has paralyzed the market.

"Little evidence of this reported oversupply can be found in the stores or in eating places, where prices are the same as when the fruit was scarce.

"A hundred dollars a carload is the current price. Freight on a car of 300 crates with 45 melons in a crate is about $400."

Regular dealers desire to maintain a fairly stable price for fruits and vegetables because consumers always object when prices rise. A low price may clear up a temporary glut and return the retailer a profit, but he fears a decrease in business when the price goes back to normal. He looks at the situation from the point of yearly profit, and not from the point of helping the consumer. The cooperative store is interested in serving its members. Staple goods are sold at regular prices. Perishables may be sold at any price so long as the usual margin of profit is maintained. The store passes on to the consumer any reduction in purchase price. The producer is helped because a low price stimulates consumption.

The Outlook.—One reason why consumers' cooperation has developed more slowly in the United States than in the British Isles is because wages are higher in America than in Britain. The average American housewife is able to follow the line of least resistance, telephone her order to the corner grocer, and accept the many services included in the selling price of his goods. There may be unsatisfied wants after the monthly bills are paid, but so far the economic urge has not been strong enough to induce very many urban residents to consider cooperation as a means of securing greater buying power.

The rural population is doubtless more thrifty than the urban population. They also have greater individuality and initiative, and are less bound down by the customs of their friends. At least some of the farmers who buy cooperatively do so as an aid to economic independence. They prefer to perform certain services for themselves instead of paying someone else to perform them.

Any increase in cooperative buying during the next twenty years will doubtless occur in rural communities. As farmers think more of farm management and develop cooperative selling, they will naturally consider economic buying. Farmers are wanting modern homes and other comforts. One way to obtain these things is to increase the buying power of their dollar.

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CHAPTER XXIII

MISCELLANEOUS COOPERATIVE ENTERPRISES

It is impossible to describe in any one book the development, the present plan of organization, and the method of operation of any very considerable number of cooperative companies. In the preceding chapters, the discussion has necessarily been limited very largely to representative organizations. It is also necessary to limit the number of products the cooperative marketing of which can be described. No attempt will be made even to mention all of the types of cooperative endeavor.

Cooperative Marketing of Fruits and Vegetables.—The following tables assembled by the United States Department of Agriculture[1] give some indication of the extent of the cooperative marketing of fruits and vegetables in 1923. The figures given are only an indication because not all the associations handling such products filed reports with the Department of Agriculture.

The fruits handled in the largest quantities by the cooperatives, in the order of their importance, are given in Table XXXII.

Some of the fruits were processed before shipping. These included a considerable part of the grapes, one-fifth of the plums, and about one-half of the apricots.

The cars of vegetables handled and their value are given in Table XXXIII.

Cooperative shipments not summarized in the preceding tables included 9475 cars of mixed fruits and vegetables valued at $9,565,603.

In 1925 the Department of Agriculture had a list of 1237 associations reporting 180,000 members. Estimated in dollars and cents, the amount of business for that year was $280,000,000.

A few of the organizations shipping fruits have already been decribed. Some of the other more important cooperative organizations shipping fruits or vegetables will be described briefly.

Eastern Shore of Virginia Produce Exchange.—Eastern Virginia is well adapted to the production of potatoes, sweet potatoes, and a great variety of vegetables. The season is early and the East Shore farmers can always have produce ready for market in advance of

[1] Agricultural Cooperation, February 25, 1924, pp. 63 and 64.

TABLE XXXII

COOPERATIVE SHIPMENTS OF FRUITS IN 1923

	Cars of Fruits Handled	
	Number	Value
Citrus	43,620	$69,202,327
Apples	16,099	13,794,341
Grapes (and raisins)	15,889	43,510,669
Peaches	6,025	9,346,380
Strawberries	5,987	6,169,964
Pears	2,829	2,431,286
Plums and Prunes	3,195	12,453,720
Cranberries	1,685	3,906,510
Apricots	391	3,083,932
Raspberries	383	672,346
Loganberries	353	312,327
Blackberries	313	268,851
Cherries	199	499,354
Figs	190	1,130,000
Currants	121	93,918
Olives and olive oil	111	579,260
Other fruits	10,397	14,544,815
Total	107,787	$182,000,000

TABLE XXXIII

COOPERATIVE SHIPMENTS OF VEGETABLES IN 1923

Vegetables	Cars of Vegetables Handled	
	Number	Value
Potatoes (white)	19,943	$11,061,852
Potatoes (sweet)	5,149	1,792,204
Tomatoes	4,440	2,993,999
Watermelons	2,637	287,525
Lettuce	1,821	1,048,920
Lima beans	1,262	3,800,000
Celery	1,162	759,502
Onions	870	435,597
Cucumbers	518	347,807
Cantaloups	503	209,879
Other vegetables	21,639	6,766,078
Total	59,944	$29,503,363

the truck gardeners living near Philadelphia, New York, Boston, Pittsburgh, and other northern cities. For many years prices were low. This was not due to a lack of consumer demand but to keener competition among the farmers in selling than among the produce men in buying. The produce buyers were not entirely at fault because each farmer established his own grades and the dealers could never be certain of securing uniform supplies.

In order to remedy the unsatisfactory marketing conditions the farmers in 1900 organized the Eastern Shore of Virginia Produce Exchange with headquarters at Olney, Virginia. It was a success from the beginning, and the region has prospered because of the increased income which has been returned to the producers.

The men who sell through the Exchange may be divided into three classes: (1) members, (2) tenants who live on land belonging to members, and (3) small growers who pay $1 a year for the privilege of selling through the Exchange.

The members own the capital stock and agree to sell all their produce through the Exchange. Membership is desirable because the Exchange furnishes the best market, and the stock pays 10 per cent. Many of the small growers who pay for the marketing privilege are negro tenants. Ordinarily, one-half of the net earnings remaining after paying the dividend on capital stock is placed in the reserve fund and the remainder paid out as patronage dividends. Everyone participates in the patronage dividend.

White potatoes are sold in greater quantity than any other product. Potato grades were established by the Exchange many years ago. The present potato grades recommended by the United States Department of Agriculture are really a development of the Eastern Shore grades. The Exchange places all potatoes of a given grade in a daily pool. No attempt is made to hold potatoes or to "fix prices." The Exchange keeps in touch with the various markets and distributes the potatoes in accordance with known conditions. Sweet potatoes, strawberries, onions, and cabbage are among the products which are handled in considerable volume.

In 1925 and 1926 business was not very satisfactory and the Exchange sustained operating losses. Because of previous preparation for such lean years it was possible for the Exchange to write off the losses and yet have remaining a surplus of $227,000. The 1927 marketing season was favorable both in shipments and sales. A patronage dividend of $42,050 was declared and the surplus was increased.

The success of the organization is due to following the principles of cooperation and the use of good business methods. The selling service has been ably performed at a low cost. There have never been any large fees paid to attorneys nor any large organization expenses. Employees are paid salaries fairly comparable with what other men are paid who perform somewhat similar duties. Returns to producers are based upon what products actually sell for when delivered, and not upon average price for which all products sell during the season. The man who can catch the early market receives the full reward for his ability and industry. It is a business organization conducted on a business basis.

Facts Affecting Potato Marketing.—Potatoes are produced in every one of our forty-eight states. They are produced most abundantly north of the Corn Belt. This is due in part to the fact that potato production is best adapted to regions where the climate is relatively cool, and in part to the fact that, except where there is a good local demand, they are less profitable than corn. The following table helps to explain potato prices and some salient facts regarding potato marketing:

TABLE XXXIV

POTATOES *

Year	Acreage	Average Yield per Acre	Total Production	Average Farm Price per Bushel December 1
1921	3,941,000	91.8	361,659,000	$1.10
1922	4,307,000	105.3	453,396,000	0.58
1923	3,816,000	109.0	416,105,000	0.78
1924	3,327,000	126.7	421,784,000	0.63
1925	3,092,000	104.6	323,465,000	1.87
1926	3,122,000	113.5	354,328,000	1.41
1927	3,505,000	114.7	402,149,000	0.96

* Yearbook, U. S. D. A., 1927.

When the production of potatoes is small the price is relatively high, and when the production is large the price is low. A year of high prices is almost invariably followed by a greatly increased acreage. The area where potatoes can be grown is very large. In no one season has as much as 5 per cent of the land suitable for potato production ever been planted to that crop. The quantity of potatoes which will be consumed at a price remunerative to the grower is limited to about 400,000,000 bushels. If the price of potatoes rises

very high, consumption is decreased because the housewife will serve cheaper foods. A very low price does not stimulate potato consumption as it does the consumption of fruits and some other foods, because at ordinary prices nearly everyone uses all the potatoes for which he cares. Because potatoes are perishable it is impossible to carry over a surplus from one year to the next. There is little demand for old potatoes when new potatoes can be purchased at a reasonable price. Any old stock carried over is, therefore, a total loss to the owner. It is impossible for any man or group of men to regulate the production of potatoes or "to fix" prices. The most that anyone can hope to do, whether grower or speculator, is to hold potatoes in short-crop years until demand forces the price upward. The marketing agency for table stock potatoes, whether cooperative or regular, which plans a long-time program upon any other basis than that of efficient service, is foredoomed to failure.

The Michigan Potato Growers' Exchange.[2]—This association, which has headquarters at Cadillac, Michigan, is one of the best known and most successful of our cooperative potato-marketing agencies. It is a federation of local cooperative associations, and sells not only potatoes but onions, hay, apples, cabbage, beans, turnips, and numerous other farm products. It has also purchased sacks, tags, twine, spray materials, and other supplies in wholesale quantities.

The growth of the association, since it was formed August 10, 1918, is indicated by the following table:

TABLE XXXV

MICHIGAN POTATO GROWERS' EXCHANGE

Season	Cars Potatoes Handled		Total Cars Handled
	Number	Index	
1918–1919	2118	100	2277
1919–1920	2158	102	3085
1920–1921	3250	153	3622
1921–1922	2439	115	2520
1922–1923	2922	138	
1923–1924	3122	147	
1924–1925	2867	135	2962
1925–1926	2982	141	3023
1926–1927	3013	142	3055

[2] Agricultural Cooperation, September 14, 1925.

The Michigan Potato Growers' Exchange and the associations which compose it are all non-stock non-profit corporations. The fee for joining a local association is $10, and that for joining the Exchange is $100. Each member of a local association signs a non-interest bearing note for $100 which may be used for collateral in securing additional operating capital.

Each member of a local association signs a five-year contract in which he agrees to deliver all potatoes to his association except seed potatoes and those sold directly to consumers. A member may cancel his contract in June of any year. Nearly 9000 growers were members of the 75 units in 1927.

The present contracts provide for pooling by local associations at the discretion of the members of each pool. Custom varies among the associations. At least one large association sells potatoes in car-lot pools until October 1, then in weekly pools until November 1, and all delivered after that date in seasonal pools. The Exchange pools each day's shipments according to variety and grade.

Each local association affiliated with the Exchange appoints the Michigan Potato Growers' Exchange its sales agent and contracts to deliver to the Exchange all potatoes which it shall receive and such other products as may be agreed upon. These contracts may be canceled during June of any year. The contract between each member and his local association, and the contract between each local and the Michigan Potato Growers' Exchange alike provide for liquidated damages in case the contract is broken by failure to deliver the pledged products.

The influence of the Michigan Potato Growers' Exchange has been out of all proportion to the volume of business handled. It has never marketed more than 21 per cent of the total car-lot potato shipments from that state, and for two years it fell as low as 15 per cent. The first year that it operated, 1918, the margin between the price which Michigan farmers received for their crop and the Chicago average price dropped more than 40 per cent below 1917. The Exchange gave efficient service at a low cost to the grower. Other potato-marketing agencies were compelled by the force of competition either to lower their margins or retire from the field. All growers have profited because of the initiative of the men who made possible the local associations and the Exchange, and assumed the risk for the success of the venture. It is unfortunate that a few growers have been compelled to carry the burden and risk of the movement from which all have profited.

Minnesota Potato Growers' Exchange.—Minnesota farmers have experimented in cooperative potato marketing with somewhat varying success. Local associations, some formed as early as 1912, secured as satisfactory results as can be expected of an association with a small volume of business. In 1920 a large number of local associations organized the Minnesota Potato Exchange, following the same general plans as the Michigan Exchange. It got along fairly well the first season, but encountered such difficulties in 1922 that reorganization was imperative. The principal cause of the trouble was poor grading. Some of the locals shipped poorly sorted potatoes as No. 1. Rejections followed. Such shipments were necessarily sold for what they would bring, which in some instances was but little more than the freight and handling charges. Since all shipments were pooled, the average selling price was lowered. Men who had sent a quality product to market protested at such injustice. In the reorganization, pooling was abandoned, and the Exchange operated largely on the commission basis.

In 1923 plans were made for a new organization. It was proposed to secure a large number of members under an iron-clad contract, and proceed to "merchandise" Minnesota potatoes beginning with the 1924 crop. By the first of March of that year when the preliminary organization campaign closed, 12,326 contracts, representing 161,543 acres of potatoes, had been received. The cost of securing the contracts had nearly consumed the $5 fee paid by each member. The marketing of the potatoes was necessarily financed by borrowing money.

Storage space was secured for more than 5000 cars of potatoes. Warehouses were purchased, leased, or built at important shipping points. Those purchased and built were to be paid for within five years by making deductions upon all potatoes handled through each warehouse. Storage space was also secured in Chicago, Kansas City, Omaha, and other important wholesale markets.

The producers fulfilled their contracts and delivered their potatoes; during the digging season there were days when more than 150 cars were shipped. The selling of the crop proved to be a different matter. Before the end of the year growers were complaining of the delay in securing returns, and the murmur of discontent did not lessen with the approach of spring and the end of the old potato season.

In September, 1925, the Minnesota Potato Growers' Exchange announced that it would suspend operations so far as concerned the

1925 crop. The company was solvent, but internal dissension due to the low net returns made a continuance of operations impractical if not impossible. An unaudited statement of the operations of the Exchange for its first year was issued as of August 31, 1925. According to the tentative report, the association received and sold 6,215,112 bushels of potatoes. Net sales after allowances, freight, adjustments, and similar charges were deducted amounted to $2,369,122 or about 60 cents per hundred pounds. The following table gives other deductions made from the net sales:

TABLE XXXVI

FINANCIAL STATISTICS, MINNESOTA POTATO GROWERS' EXCHANGE, 1925

Net Sales		$2,369,122
General office expense	$154,170	
Selling expense	177,449	
Warehouse expense	813,849	
Other expense	58,801	
Investments	202,857	
Legal reserve	48,681	
TOTAL DEDUCTIONS		1,455,807
Returns available to growers		$ 913,315
Paid growers up to August 31		849,421
Probably available for final payment		$ 63,894

According to this statement the growers had received on the average less than 14 cents net per bushel for their crop and could receive only about one cent per bushel more. Under such conditions there is little wonder that the members were dissatisfied even though the Exchange was able to meet its financial obligations.

A number of reasons, some of which are as follows, have been advanced to explain the low net returns.

1. A large potato crop in 1924 which naturally reduced potato prices.
2. Bitter opposition from regular dealers who would lose if the Exchange succeeded.
3. Unduly high operating expense.
4. Unwise selling policy.

Whether or not any or all of these reasons are the true ones, at least three very definite inferences may be drawn from the experience of the Minnesota Potato Growers' Exchange.

1. While the pooling of commodities by grade is often of assistance, it does not insure the success of a cooperative marketing venture.
2. Unless the members of a cooperative believe that they are receiving an efficient marketing service and securing as good a price as their neighbors who sell through regular market channels, they are certain to censure their association.
3. An iron-clad, long-time contract neither insures loyalty nor a long-lived organization. In his speech on Conciliation with America, Edmund Burke said, "I do not know the method of drawing up an indictment against a whole people." It is likewise impossible to compel the enforcement of marketing contracts when almost the entire membership desire their abrogation.

Cooperative Marketing of Potatoes in Maine.—The Maine Potato Growers' Exchange began operation in 1923 with 3100 members who grew approximately 50 per cent of the Maine crop. It handled 2,897,860 barrels of potatoes of the 1923 crop and 3,396,724 barrels of the 1924 crop. All potatoes were pooled by grade. The delivery of potatoes by members was regulated, as was also the disposal of the crop. At the close of the 1924–25 year, the Exchange owned 34 warehouses with a combined capacity of 322,966 barrels. It also leased during the marketing season 154 warehouses with a combined capacity of 982,755 barrels. Each member was bound to the association by a contract which assured the delivery of his potatoes. At the 1924 annual meeting of the board of trustees, the legal department was instructed to prosecute vigorously all breaches of contract. They carried out their instructions and the courts sustained the contracts.

In September, 1925, the Maine Potato Growers' Exchange suspended marketing activities. The members had received on the average less than 72 cents per barrel for the 1924 crop. Creditors who had sold fertilizers and other supplies on credit insisted that the 1925 crop should be harvested and marketed without delay. In the minds of many creditors and growers, the marketing policy of 1924 was not justified by the returns.

Everyone will admit that the 1924 potato crop was larger than the country would consume at a price profitable to producers. The Exchange could neither increase the demand for potatoes nor decrease the supply. The growers were most interested in whether or not the potatoes were marketed as efficiently through their own organization as through regular marketing channels. Certain it is that the long-time irrevocable contracts, the pooling policy, the attempt to feed the market, and the various other policies which have sometimes been heralded as the essentials of cooperation did not suffice to keep the company from suspending marketing activities.

Some Smaller Potato-marketing Associations.—Other cooperative potato-marketing organizations have operated in North Dakota, Idaho, Colorado, Nebraska, Wisconsin, and probably in other states. The success or failure of each organization seems to have depended almost entirely upon the efficiency of the marketing service rendered. The marketing of potatoes through regular channels is sometimes far from satisfactory to the growers. The existing system has not been operated for their benefit. They suffer from the imperfections of the system itself and from the methods of its operation. Cooperation is a justifiable method of securing a more satisfactory selling service. Such a system, to succeed, must be based on efficiency and not upon hopes and day dreams.

Cooperative Marketing of Apples.—In 1923 cooperative associations that reported to the United States Department of Agriculture sold 16,099 carloads of apples, valued at $13,794,341. Some of the associations which marketed apples also marketed pears and other fruits in considerable quantity.

The Apple Growers' Association of Hood River, Oregon, is one of the largest cooperative fruit-marketing organizations. While its most important function is to market apples it also handles pears, strawberries, cherries, and other fruits. The members sign a contract agreeing to sell their products through the Association. The fruit is placed in short-time pools.

The Yakima Fruit Growers of Yakima, Washington, is another important fruit-selling agency. It is organized on the capital-stock plan and owns district warehouses, a large packing plant, and cold storage space for 1000 carloads of fruit. Shipments are pooled, the length of the pools varying from one week to an entire season, depending upon the variety. In 1927 it had a membership of approximately 1000 growers who owned 10,000 acres of fruit.

The Wenatchee District Cooperative Association is composed of

local packing associations in the Wenatchee and Columbia Valleys in Washington. It establishes the standards under which the fruit must be packed by the locals and sells the product. Sales have been stimulated by an advertising campaign of "Jim Hill" apples in newspapers of thirty-five cities. Earnings for 1927–28 amounted to $7332. This is the third consecutive year that an 8 per cent dividend has been paid on stock. Because of the necessity of meeting the competition of apple growers living much nearer to the large consuming centers, the Wenatchee Association is devoting a very considerable part of its energy to stimulating an increase in the percentage of fancy apples produced by its members.

The Western New York Fruit Growers' Cooperative Packing Association has given its members an improved market service. The emphasis placed upon grading and packing is having an influence upon quality production. The present policy of the association is "to market only those varieties which are delivered in reasonably large quantities and for which there is an actual market demand. This means a gradual elimination of undesirable varieties in the section served by the Association." The experience in marketing their own product is helping the members to learn market demand and in that way is improving production.

Cooperative Marketing of Cranberries.—In 1927–28 approximately 63 per cent of all cranberries produced in the United States were marketed through producer-controlled cooperative associations and net sales totaled $3,809,000. These cooperative associations have increased the consumption of cranberries by judicious advertising and by furnishing a well-graded product. The returns to the growers have increased because of increased demand and twenty-one years of efficient marketing.

Federated Fruit and Vegetable Growers, New York City.—This federation of 71 member organizations, grower owned and controlled, scattered through 39 states, began operating in 1923. During the four years of its activity, 1923–26, it has handled an annual average of more than 27,000 cars of fruit and vegetables and made carload sales in 1480 cities and towns. About one-fourth of the shipments were potatoes, one-third vegetables and small fruits, and the rest apples, peaches, and pears. About 90 per cent of the cars handled were sold f.o.b. shipping point and the remainder at private sale or public auction at the terminal markets.

Cooperative Marketing of Nuts.—Local cooperative associations for marketing soft-shelled walnuts have been in operation in Cali-

fornia since sometime in the nineties. In 1909 two of the associations decided that it would be feasible to operate as wholesalers instead of selling through brokers or shippers. Other associations were quick to adopt the new idea. The California Walnut Growers' Association was organized in 1912 as the marketing agency for the local associations. The first year the new company marketed more than one-half of the commercial walnut crop of California. In 1927-28 the Association's pack was 85 per cent of the largest crop on record. The production of walnuts in California increased almost four-fold between 1912 and 1927, and the volume of business handled by the Association increased from 11,366,000 pounds in 1912-13 to 69,000,000 pounds in 1927-28.

The California Walnut Growers' Association is a federation of local associations which numbered 42 in 1927 and had about 4500 grower members. Each member contracts to deliver his product to his own local. The locals contract with the central association. The new contract adopted in 1925 runs for fifteen years, but any dissatisfied member may withdraw in January or February of any year. An unusual provision of the contract is that any member who withdraws "may not again become a member until two crop seasons have elapsed. . . . A grower who sells all or a part of his crop outside of the Association or otherwise violates his contract will be suspended for three crop seasons. Growers' culls must be delivered and handled by the Association." Growers may join only between January 1 and August 1 of each year. The local associations which are members of the federation are subject to the same restrictions as the growers who are members of the locals.

The California Walnut Growers' Association takes the attitude that "a local association or a grower is either a cooperator or not a cooperator, that there can be no half-way ground, and that those who do not show that they are real cooperators by living strictly up to their agreements with their fellow members had, for the good of all, better be outside the Association."

The new plan indicates very clearly that the Association has unlimited confidence in its ability to handle soft-shelled walnuts more economically than its competitors. No effort is to be made to compel growers to stay in for a long term of years. A man may stay or not, just as he pleases. The penalty for withdrawing is that a man becomes ineligible for membership until he has had ample time to think the question over and decide definitely that he really wishes to market cooperatively. The real price of membership is loyalty.

The new plan seems to be a great improvement over the long-time irrevocable contract that attempts to bind men to an organization with whose policies they may not be in sympathy.

The Association has always followed the policy of selling a crop before a new crop is produced. In only one year was it unable to carry out this policy. The opening price quoted by the Association is the price at which it thinks the crop will move into consumption. It knows that if it sells too cheap, speculators will buy the nuts and sell them out at the demand-supply price; if too high a price is asked a part of the nuts must be carried over, which will depress the price of the new crop. It is, of course, almost unnecessary to add that the management of so successful an organization entertains no delusions about "price fixing." According to its own statements the Association sells its product at a price based on the law of supply and demand, rather than upon cost of production or the desire of any group of growers for a high price.

Three closely affiliated corporations work in harmony with the marketing organization. The Walnut Growers' Company owns a large building in Los Angeles occupied in part by the Association. The Walnut Growers' Warehouse Company conducts a public storage business in a part of the same building. The Walnut Growers' Spray Manufacturing Company manufactures sprays and also makes charcoal from walnut shells.

The California Almond Growers' Exchange handles approximately 68 per cent of the almonds produced in California. In 1926-27 it had completed seventeen years of service and had 3550 producer members in good standing. That year it handled 10,000 tons of nuts. Nuts of standard size are placed in pools according to variety and grade. Small nuts must be kept separate and are sold for the individual grower's account. The association evidently owes its continued success to efficient management. It has developed its own sales outlets and broker connections and is entirely free from debt. The members believe that their association performs the marketing service more economically than it is performed by other agencies.

The cooperative marketing of peanuts is comparatively new and so far has apparently been less successful than the marketing of soft-shelled walnuts and almonds. One association which had an iron-clad contract with its members agreed not to prosecute for failure to deliver any part of the 1924 crop but asked that each member deliver 24 per cent of his crop. The contract did not insure the confidence of the members in their association. Another association has fared

somewhat better. Overhead expenses were reduced to $3.75 per ton for the period July 1, 1924, to May 25, 1925, compared with $8.30 per ton for a corresponding period in the preceding year. The membership had also increased about 25 per cent. Economy and efficiency are evidently more essential to the success of cooperatives than long-time irrevocable contracts which stipulate the payment of liquidated damages if violated.

Cooperative Bakeries.—In 1925 there were 21 cooperative bakeries in the United States owned by more than 16,000 members. These bakeries had at that time a paid-in-share capital of more than $270,000, and annual sales during the preceding year totaled nearly $2,000,000. Most of them were in large cities and faced keen competition. In order to succeed these bakeries must make at least as good bread and pastry as their competitors and sell it at a lower price, or sell better products at standard prices. Their large volume of business comes from something besides mere loyalty to the cooperative idea. It is loyalty to successful business organizations. These bakeries are efficient. They are performing an essential service at a lower cost to consumers than are bakeries operated for profit.

Cooperative Insurance.—One of the oldest and most successful forms of cooperation is cooperative fire insurance. The first of the farmers' mutual fire insurance companies was organized about 1825. The first companies were successful. They gave fire protection at a lower cost than their competitors and as a result the movement spread. There are in existence to-day more than 200 mutual (cooperative) insurance companies that were organized before 1870. This development seems remarkable when we consider that the first farmers' mutual insurance law was not passed until 1857 and was repealed in 1862. As late as 1879 only eight states had statutes providing for the incorporation and regulation of mutual insurance companies.

In 1927 there were about 1950 farmers' mutual fire insurance companies in active operation, carrying risks amounting to more than $10,000,000,000. This was estimated to be about one-half of the insurance then in force on farm property.

A very large proportion of the farmers' mutual insurance companies operate in only one county or a part of a county. A few limit their activities to a single township. Some companies operate in two or three adjoining counties and a few companies cover an entire state. This limitation of area is possible in companies of this type because the risks are scattered. A fire in a city may wreck a wide

area; in the country it is almost always confined to the buildings on a single farm.

The typical farmers' mutual insurance company is a corporation without capital stock. It is governed by a board of directors, varying in number from five to fifteen, although nine is the most usual number. A part of the companies operate under the unlimited liability plan, each member pledging himself to pay his proportionate share of all the losses and operating expenses of the company without regard to the amount. A few companies limit the liability of their members. This limit is usually high enough to more than take care of

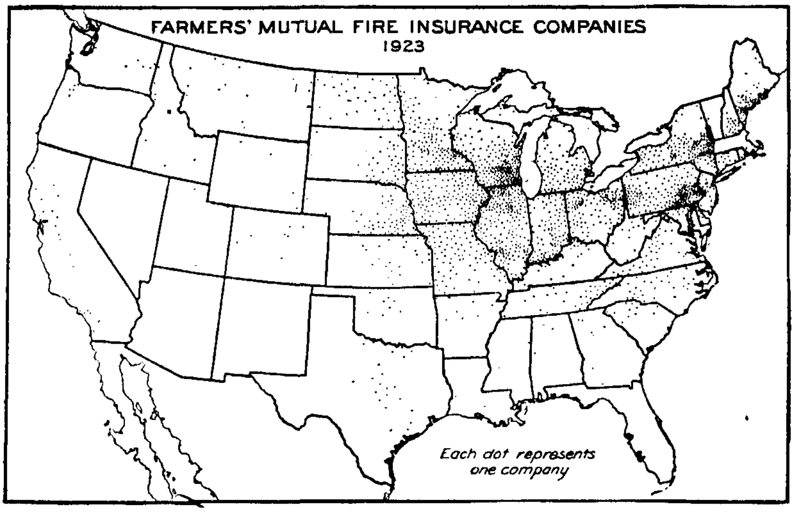

FIG. 19.—Fire insurance on farm property is written by about 2,000 farmers' mutual fire insurance companies. Over 65 per cent of these companies, with risks in force amounting to almost 70 per cent of the total risks carried by such companies, are located in the east North Central and west North Central States. Nils A. Olsen, *et al.*, Yearbook, U. S. D. A., 1924, p. 241.

all ordinary losses, but protects the members from some widespread calamity.

The majority of the companies operate under the assessment plan. When a loss occurs it is prorated in accordance with the insurance in force. This usually entails the borrowing of money to make settlement, the loan being repaid when the assessment is collected. A part of the companies, particularly the large ones, make annual assessments, and thus have money on hand with which to settle losses. The time of paying assessments is distributed through the year, being

dependent upon the time when each member took out his first policy with the company. Some of the companies operating under the assessment plan have accumulated substantial reserves and are in a position to pay unusual losses without an increase in assessment.

The cost of fire insurance in farmers' mutuals is comparatively low, which is a good indication of conservative, efficient management. For the five-year period 1917 to 1921, inclusive, the average annual cost for the country as a whole was 26 cents per $100 of insurance.[3]

Cooperative windstorm insurance is less common than cooperative fire insurance. Doubtless the principal reason for the difference is that the risks for windstorm insurance should be widely scattered, and this prevents such a company from being operated as a community enterprise. A company covering an entire state or a considerable part of a state may write such policies with safety.

"About one-sixth of the farmers' mutual fire insurance companies write policies covering both fire and wind. In several of the Middle-western States a number of specialized windstorm mutuals have been organized. The most recent development, however, is the organization of state-wide windstorm companies by state associations of fire insurance mutuals. In some instances state associations of fire insurance mutuals have merely given windstorm companies their endorsement and support. State-wide windstorm policies of this kind have been organized in Iowa, Indiana, Missouri, Ohio, North Dakota, and South Dakota. Since they work in close cooperation with fire insurance mutuals, they are able to provide protection at a minimum cost. The applications are almost always taken by representatives of the fire insurance mutuals and the risks are well scattered over the entire state." [4]

About 30 local mutual livestock insurance companies are in operation, nearly one-half of them being located in Pennsylvania. Mutual hail insurance has been tried but has proved less successful than mutual fire insurance or wind insurance. Out of a total of 121 mutual hail insurance companies of which the United States Department of Agriculture had a record, only 41 were in existence in 1919. State hail insurance departments and privately owned hail insurance companies are doubtless better adapted to the carrying of hail insurance risks than are mutual hail insurance companies.

A new type of farmers' mutual insurance company is developing in the Middle West. This is the automobile insurance company which

[3] Olsen, Nils A., *et al.* Farm Insurance. Yearbook, U. S. D. A., 1924, p. 244.

[4] Olsen, Nils A., *et al.* Farm Insurance. Yearbook, U. S. D. A., 1924, p. 242.

insures against fire, theft, collision, property damage, and injury to persons. In 1926 there were four such companies, one of which was operating in eight states.

Many Cooperatives in Operation.—Some of the cooperative organizations which cannot be described here include cooperative telephone companies, cooperative irrigation projects, and cooperative credit organizations. Among the products marketed cooperatively of which no mention has been made in the preceding pages, some of the more important are rice, alfalfa, and beans. The fundamental plan upon which any one of these associations is organized does not differ materially from the plan of some association that has already been discussed.

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CHAPTER XXIV

THE FUNDAMENTALS OF SUCCESSFUL COOPERATION

The best method of deciding which principles may be considered fundamental to the success of cooperation is by a study of cooperative enterprises. In what respects do the successful cooperative enterprises differ from the failures? An analysis of the various organizations described in preceding pages should help answer this question.

In describing the Rochdale Pioneers, the farmer-owned elevators, the marketing of citrus fruits, and various other cooperative organizations, there has necessarily been considerable discussion of cooperative principles. It naturally follows that this chapter will be in part a recapitulation of facts previously presented. Because of this, the discussion of some of the fundamental and almost universally accepted principles will be very brief.

Must be Born of Necessity.—Every successful cooperative organization mentioned in the preceding chapters was organized because the members felt that they could perform some service for themselves more satisfactorily than it was being performed by existing agencies. In nearly every instance cooperation came as a result of dire necessity. Men risked their capital in a new enterprise because they felt that there was no alternative. Among the many organizations whose first members felt the urge of necessity, the following are characteristic: The Rochdale Society of Equitable Pioneers, the first farmer-owned elevator companies and many organized in more recent years, the Grain Growers' Grain Company of Canada, the California Fruit Growers' Exchange and its predecessors, the Sun Maid Raisin Growers, the Danish cooperatives, the Twin City Milk Producers' Association, the Dairymen's League Cooperative Association, Inc., the Sheboygan County Cheese Producers' Federation, the Poultry Producers of Central California, and the California Walnut Growers' Association.

The organization of a cooperative enterprise usually involves the investment of considerable capital and no small expenditure of time and energy. A group of men may discuss together the need of their

community for an elevator or store or creamery. Means must be found to interest other men in the project. The leaders of the movement must obtain information concerning the success of other similar ventures, must arrange for meetings where the question can be discussed, and must provide competent speakers. Someone must solicit memberships, and ordinarily the members must provide either capital or credit. No association operates automatically. There must be intelligent direction. The members of the board of directors of a typical cooperative company must be both generous and able. The time which an officer spends in attending to the affairs of the company cannot be given to performing his own work.

Conditions must be very unsatisfactory before any group of men will attempt to remedy them by organizing a cooperative company. They must be willing to risk the loss of time, money, and business reputation. They must expect to meet obstacles and to endure hardships. They must feel their need so keenly that they will stick to their own company even when it means apparent loss. Unless men are willing to invest time, energy, and capital, and unless they will remain loyal when their competitors offer special inducements, the cooperative will not succeed. The cooperative organization may be operated ever so efficiently, but unless the members feel the need they will drop away one by one. Successful cooperation is born of necessity.

One Man, One Vote.—The members of a cooperative company must feel that the rights of all are equal. From the organization of the Rochdale Pioneers to the present time the majority of successful cooperatives have given their members equal voting rights without regard to capital invested. A few successful companies base the voting privilege upon the crop acreage or probable amount of business that will be done with the organization. Where unfriendly laws require voting in proportion to stock ownership, a limitation should always be placed upon the amount of stock which one man may own. When one man or a small group of men gains control of a cooperative association, that association usually ceases to be cooperative in spirit as well as in form.

Dividends on Capital Stock Limited.—Ordinary corporations operated for profit pay dividends on capital stock. A cooperative association organized for savings in buying, selling, or manufacture pays wages to capital. In such an association it is as manifestly unfair to overpay capital as to overpay any officer or employee of the company. The savings belong to the members.

Some of the cooperative companies which have been described avoided the question of dividends on stock by organizing on the non-stock, non-profit basis. Others place a limitation upon the rate of dividends in either the articles of incorporation or the by-laws. A few pay no dividends on stock. Nearly all cooperatives which have been in operation for a considerable period of years recognize that the distribution of capital among members is not a satisfactory basis to use in the apportionment of savings.

Savings Distributed in Proportion to Patronage.—The earnings or savings of a cooperative association naturally belong to the members or perhaps to the members and non-members who furnish the business. No company is able to forecast in advance either the exact cost of operation or the exact volume of business. Sometimes an estimate of operating costs may be very accurate. An estimate made by the same manager for the succeeding year may miss by a considerable margin. The safe thing to do is to operate on a reasonably wide margin, and return any unexpended portion to the members in proportion to the patronage furnished by each. The patronage dividend may be considered merely as a deferred payment. Cooperative associations which operate a yearly pool or pools may pay several dividends during the year as products are sold. The last payment balances the account with each individual. The underlying principle is not so very different so far as the producer is concerned, from holding back a part of the selling price of his products until the close of the business year and returning it to him as a patronage dividend.

Buy and Sell at Usual Prices.—The Rochdale Pioneers from their very inception followed the policy of selling staple goods at the same price which regular dealers charged. There was no price cutting. Any savings which accrued were distributed among the members in proportion to patronage. This plan not only provided a safe margin upon which to do business, but assisted the society in avoiding bitter price wars with its competitors. Hundreds of buying organizations have profited by this business principle of the Rochdale Pioneers, and other organizations have failed because of reckless price cutting.

Selling organizations are most likely to prosper when they retain the usual margin to cover cost of handling. The farmer-owned elevator company which cuts its margin in order to secure business is treading on dangerous ground. The true cooperator will be better pleased to receive a patronage dividend at the end of the year than to be told that because of paying high prices for grain his company

barely paid operating costs. He prefers that his company operate on the safe plan even though it may defer the receipt of a small part of the selling price of his grain.

Cooperative companies which do not buy products outright but make a partial payment to members at time of delivery must be careful that they do not advance more than the actual value of the commodities. The experience of the California Prune and Apricot Association in 1920 is an illustration of what may happen. Prunes dropped in price in spite of the belief that the price could be "fixed," and as a result the company suffered financial difficulties. It was compelled to deduct from the price of prunes delivered by some of the members in 1921 to equalize the overpayments on small sizes in 1920.

The Sun Maid Raisin Growers suffered even more severely because they guaranteed members a minimum price. Reorganization was the final outcome of their failure to observe this simple rule of cooperation.

Business Conducted on a Cash Basis.—A cooperative buying or selling company is operated for the purpose of securing savings for members. The entrepreneur who invests his own money may be justified in taking risks in order to secure a greater volume of business and thus increase his profits. The manager of a cooperative business should not risk the capital of his employers. His job is to save a part of the usual cost of operation. The extension of credit involves bookkeeping and interest costs and the possibility of total loss. The cooperative manager who extends credit to one member is almost compelled to extend credit to all members. He cannot discriminate as can the private owner.

The company that conducts a wholesale business is practically compelled to offer the usual terms to the trade. The credit man for such an association should be unusually alert. He cannot ask the advice of the owner or shift responsibility. There are too many owners. The firm that cannot pay promptly should be permitted to seek other sources of supply.

Limit Number of Shares which One Member May Hold.—No association can be truly cooperative which is controlled by one man or by a small group of men. In states where the law requires voting in accordance with ownership of stock, it is essential that the stock which any one person may own shall be limited. The stock in a stock company should be widely distributed in order that risk, responsibility, and interest in the success of the company may be distributed.

The non-stock company, by virtue of its form of organization, presents no danger of centralization of ownership. When a stock company is organized to furnish capital and facilities for a non-stock company the same reasons for stock distribution apply as for the ordinary cooperative company organized on the capital-stock plan. It is doubtless easier to maintain harmony between the two companies when the risk and control are fairly well distributed among the persons who are most interested in the outcome of the cooperative venture.

Membership Open.—The opportunity of becoming a member of a cooperative association should be open to every person in the district served by the association who would be benefited by membership and whose business might benefit the association. Ordinarily every person who produces turkeys for sale should have the opportunity of joining the community turkey-marketing association. Every man who sells cream should be privileged to join the local cooperative creamery, and every person who would be benefited by membership should be permitted to join the cooperative store. The job of the membership committee of a cooperative is to get desirable new members and not to keep out the persons against whom some one of them happens to have a private grudge. Of course this sweeping statement does not mean that the turkey producer who sells to a private dealer instead of shipping through his own association needs to be retained as a member or that the cooperative store must necessarily accept the membership application of a competing merchant. Other exceptions will doubtless occur to many readers. The principle holds good, however, that a cooperative association wants volume of business and volume is increased by increasing the membership. When nearly all the progressive farmers in a community are members of the cooperative elevator company or shipping association the possibility of a competing cooperative organization entering the field is very slight. True cooperation is democratic in principle, and true democracy implies that opportunity for membership is open to all.

Unit Must Lie in a Restricted Area.—The members should be acquainted with one another. They should be able to meet occasionally to discuss their common problems. Unless the association is kept close to the members, they will soon lose interest. Some of the large associations which formerly relied upon a contract to hold the members together have recently taken steps to form locals.

The Dairymen's League Cooperative Association, Inc., has been benefited by its local associations. The members of any one local

usually meet about the same marketing conditions. On the other hand, without the League, market conditions for the members of a local 200 miles from New York might be quite different from the conditions of the members only 30 miles from New York.

Soil and climate affect the quality of fruit in districts but a few miles apart. The produce of each district should sell upon its own merits. Grade alone does not tell the entire story.

Cooperative Association Should be Controlled by Patrons.—A buying association should be controlled by the men and women who actually patronize it, and a selling association should be controlled by producers who utilize its services. Nearly all selling associations limit membership to actual producers, and some go so far as to refuse to handle the produce of non-members. Cooperative associations are organized for the benefit of the members. No one else should be permitted to influence their operation. They should handle the products of non-members only when such action strengthens the association.

Standardize the Product.—One of the reasons why cooperative elevators have succeeded better than many other types of cooperative marketing associations is because they have dealt in a product that has for many years been fairly well standardized. Before the promulgation of Federal standards for grading grains, each grain exchange established its own standards. Elevator managers bought grain with some reference to these standards. Every producer knew that if his grain tested low in weight he would receive a lower price than if it tested high, and that damp or damaged grain would be purchased only at a discount. The attempts at standardization may have been somewhat crude, but nevertheless without standardization fewer cooperative elevators would have succeeded.

One reason for the success of the cooperative egg-marketing movement is the practice of paying for eggs upon the basis of grade. The man who gets a good price is pleased. The man who receives a low price learns how to improve his product. The cooperatives are not only handling quality eggs more efficiently than are their competitors, but they follow a policy which increases the percentage of quality eggs which the producers market.

Land O' Lakes butter, Sun Maid raisins, Sunkist oranges, Sunsweet prunes, Jim Hill apples, and Washco eggs are all examples of the success of cooperatives in standardization. The Danish cooperative movement owes as much perhaps to standardization as to

any other single factor. The Lur brand stands for quality. The consumer's confidence in quality increases the price which he will pay willingly. The cooperative marketing association has an advantage over its competitors because, since the members furnish the product, they can exert a tremendous influence upon the quality.

Service.—The successful cooperative association must charge for the service which it gives and must give the service for which it charges. The members must feel that all are treated alike and that each receives the service for which he pays. The cooperative company need not necessarily offer to perform as many services as its competitors, but every service which it does agree to perform must be completed in a satisfactory manner.

Loyalty of Members.—The cooperative association that is an outgrowth of necessity and overcomes obstacles to attain an initial success is usually assured of the loyal support of the charter members. Disloyalty is more common among the members who join after the association is well under way. They do not realize the savings effected by the cooperators nor the obstacles surmounted in making the co-operative possible.

Many of the younger farmers in the Grain Belt are not nearly as loyal to the cooperative elevators as the men who took active part in their formation twenty years ago. They cannot imagine the conditions which were all too common when the grain dealers' associations of the various states exerted a controlling influence over grain prices and the personnel of grain dealers.

In an earlier chapter the statement was made that the members of a successful company are usually loyal. There ought also to be a loyalty that will cause the members to support their own company in days of adversity. Members who do this are usually men who realize the ultimate advantages of cooperation and are also men of high moral character.

Good Management.—The discussion of the management and the manager of a cooperative elevator in a preceding chapter applies with equal force to other cooperative associations. The manager should be well trained for his job. He must know the product or products handled. The manager of a producers' selling organization should know something of production methods and production problems. He must know how to grade the products in conformity with commonly accepted standards. He must not only know one market but must know which possible market furnishes the most satisfactory

outlet at any particular time. He must know that the firms with which he deals have a satisfactory credit rating. He must be honest, intelligent, loyal, cautious, courageous, and resourceful.

The selection of a competent manager is the most important job to be performed by many boards of directors. The competent manager will not only follow a definite policy but will assist the directors in establishing that policy. The directors must know that the manager is actually securing results, and that he is keeping an accurate record of his business operations. They must become as accustomed to the idea of employing a manager who is especially trained for his work as to that of employing a trained physician or lawyer. They must expect to pay for service rendered. The salary of the manager must be commensurate with the results which he secures and the salary paid other men in somewhat similar positions. The payment of a high salary to an incompetent man will not increase his ability. On the other hand, it sometimes decreases his real value by giving him an exalted opinion of his worth.

The management of a cooperative association must expect to take the membership into their confidence. Of course, this means publishing considerable information relative to profits, losses, and methods of transacting business. Ordinarily the strong competitors can find means of obtaining any inside information that they wish concerning a cooperative. The members might better hear of losses from their officers than from the whispering of unfriendly lips.

The members of a cooperative association will usually do well to remember that men who have been successful in conducting their own business affairs are most apt to be successful in conducting the business of a cooperative association.

Pooling.—Pooling has already been discussed in preceding chapters. Perhaps it is sufficient to repeat here that pooling is not cooperation. A producers' marketing association that does not pool its product may be cooperative, and an association may pool its product without becoming in any sense cooperative. Some cooperatives do utilize either the short-time or long-time pool with very satisfactory results. It is, to say the least, a neighborly way of distributing risk.

The short-time local pool is likely to prove satisfactory. The seasonal pool has worked out satisfactorily with soft-shelled walnuts, almonds, and some other products which can be placed in definite grades, and which are not sold through established exchanges as are our cereals. The number of grain-marketing associations organized

on the pooling plan which have ceased operations lead those who are not too credulous to believe that the seasonal pool is not adapted to grain marketing. The somewhat unhappy story of the two largest potato-marketing organizations which have attempted pooling has already been related. The pooling plan did not save either the California Prune and Apricot Growers' Association or the Sun Maid Raisin Growers' Association from passing through an unpleasant reorganization.

The pool has certain advantages. The unfortunate experiences of many pooling companies, following rather closely in the wake of widely circulated statements concerning the wonderful possibilities of pooling, should not deter any company from adopting a pooling plan if the commodity which it is marketing and the conditions under which it is marketed are such as to make pooling advisable. Pooling is neither a cure-all for marketing ills nor a nefarious device which all cooperative associations should fear.

Price Fixing.—The idea of price fixing is not new. It has been tried out intermittently for at least four thousand years, but has never achieved any long-continued success except when the supply of the commodity could be regulated. Even governmental price fixing has failed when production has continued without regulation. If a price is fixed too high, production increases and floods the market. If the price is fixed too low, production decreases and there is not enough produced to supply the demand.

The Sherman Anti-Trust Law and various other statutes, both national and state, are indicative of the public belief that manufacturers do combine and fix prices. The convictions under these various laws are ample evidence that there have been combination and price fixing. In every instance when a corporation has established a monopoly selling price, it has been able to regulate the supply through control of a dominant part of the producing agencies.

No cooperative association can hope to fix prices unless it can control supply. So far it has not been possible for any cooperative association of which the author has knowledge to exercise such control, and there is no reason to think that it will become possible in the near future. Only a few years ago, Grain Belt and Cotton Belt farmers were told that California cooperative associations had brought prosperity to their members because they were able to fix the price of prunes and raisins and other commodities. The story sounded almost too good to be true. The prices were certainly too high to endure long. The demand for prunes and raisins fell away with the coming of the

post-war period of depression, and the supply increased when new plantings came into bearing. The producers are now receiving relatively low prices, and the managers of the associations deny emphatically that they or the directors can fix the price of the products that they market.

Thinking men and women should not join a cooperative because of any hope in the association's fixing prices. If they join, it should be because of a belief that the cooperative can perform the marketing function more economically and more satisfactorily than it is being performed by existing agencies.

The Central Marketing Organization.—Local associations may comply with all the essentials of cooperation that have been previously discussed and yet fail to arrive at a satisfactory solution of many marketing problems. Some of the more important of these problems are included in the following list.

1. Standardization.—A small cooperative association is likely to have difficulty in establishing and maintaining standards. Buyers usually pay the best price for a known product of uniform quality. The responsibility for poor grading or no grading may rest with the manager, but can usually be traced back to the members. The manager is an employee and can enforce standards only when he has the loyal support of a majority of his employers.

Not only should the members of an association insist that all the products sold be graded according to proper standards, but that the members should produce products that may be readily graded. For example, the members of a local egg-marketing association should either all produce white eggs or all produce brown eggs.

Associations which market fruits, vegetables, or dairy products are likely to have more difficulty over standardization than cooperative elevators or livestock-shipping associations, because producers as a rule have a fair knowledge of grain grades, and livestock may be sold by mark.

2. Furnishing Information to Members.—Local associations have greater difficulty in obtaining information upon crop acreage, production outlook, and market conditions than do large associations. They cannot build up an information bureau nor have their own representatives in other producing regions or in the large market centers. They can do little toward helping their members regulate production in accordance with probable demand.

3. Selling the Product.—A local cooperative association must either sell to local buyers or ship to some existing agency at a terminal

market. Questions immediately arise as to which market is best, and which agency in each available market is most satisfactory. Unfortunately, the market that is best to-day may not be best to-morrow or next week or next year. The marketing of such products as livestock and grain, which are sold through regularly organized exchanges, is less difficult than the marketing of fruits and vegetables, but skilled managers of elevators and livestock-shipping associations are always watching the various markets and searching for the best outlet.

The market demands a known product. The association with a sufficient volume of business to make its product known as is Land O' Lakes butter or Sunkist oranges has a very distinct advantage over the association marketing an equally good but unknown product. It is only under exceptional conditions that the small association is able to influence consumption, through advertising or by any other means, to a point that makes the additional investment profitable. Its only practical method of increasing consumption is to lower the price.

4. *Claims.*—The small association is at a very distinct disadvantage in handling claims against railway companies for damage in transit or against buyers for unwarranted rejections.

5. *Research.*—A local cooperative association does not have funds available for conducting research in either production or marketing. The United States Bureau of Agricultural Economics and many of the state agricultural colleges are engaged in market research, but they have so far touched only a small part of the field. More knowledge is needed about packing, packaging, processing, storage, consumption trends, price analyses, and various other problems. Some of the problems can best be worked out by the producers, but they cannot do it as individuals or by working through a small organization.

6. *Business Management.*—A small association is necessarily limited in the salary that can be paid to the manager or to his assistants. The volume of business is too small to permit competition with a large association that is really interested in securing managerial ability. High salaries do not always indicate efficient men, but in the long run the best managers do gravitate into the better-paying positions. The small associations are necessarily training schools. The most successful managers usually move up, and those who fail move out. The cost of the failure is borne by the association.

Because of the various handicaps under which local cooperative associations operate, there has been a marked tendency in recent

years toward the formation of larger organizations. There has been a very general desire for an organization that can carry cooperation to the central markets, and render there as efficient service as has been rendered locally by thousands of small cooperatives.

The cooperative organizations that operate in the central markets belong to one of two distinct types, the federated type or the centralized type. The centralized type is sometimes referred to as the "commodity" type, but this is not a truly descriptive name since nearly all cooperative marketing is by commodities. A cooperative grain-marketing company which handles coal and mill feeds, and an apple-marketing company which handles spray materials may be classed as commodity marketing associations. The side lines usually comprise but a small percentage of the total business of such a company. They are handled because they fit well into the business of the members and into the operation of the cooperative company.

A federation is a union of local associations. Each of these locals usually operates in a restricted area and is truly cooperative in form of organization. The members are acquainted with one another and are accustomed to meeting together occasionally to discuss common problems. Local associations join a federation because a large company may enter the central markets and plan and execute a business program that is beyond the province of the smaller unit. The federation is well exemplified by such organizations as The California Fruit Growers' Exchange, the Land O' Lakes Creameries, Inc., the Michigan Potato Growers' Exchange, and the butter export associations of Denmark.

In the California Fruit Growers' Exchange, the producers are members of a local; each local is a member of a district exchange, and these district exchanges, twenty-two in number, are members of the central organization. In other words, the California Fruit Growers' Exchange is a federation of federations.

In the centralized type of organization, the individual producers are members of the central market organization. There are no local units which have control of local matters. Such an organization may cover a large area. The California Prune and Apricot Association, Inc., the Dark Tobacco Growers' Association, and the Maine Potato Exchange are representative examples of this type of organization.

An analysis of the various central market organizations previously described shows several respects in which the federated type differs from the centralized type and other respects in which they are very much alike.

The goal of a federation is increased efficiency in marketing. A federation usually strives for a large volume of business in order to decrease the cost of overhead per unit and make possible the rendering of increased service. The varied services performed by the California Fruit Growers' Exchange [1] as a part of its marketing service are indicative of the possibilities of such an organization.

The original goal of some of the centralized associations was price fixing through monopoly control. They attempted to control supply through producer contracts. As a matter of course, control of supply does permit the setting of a monopoly price. Most of the associations that attempted the plan soon encountered difficulties because the producer contracts did not limit the supply produced. The increased prices increased the production of both members and non-members and decreased consumption. The disposition of the surplus was the problem that these associations could not settle to the satisfaction of their members.

Nearly all centralized associations are now striving as hard for efficiency as are the federations. The most that the majority of managers hope to accomplish in the matter of price influence is to eliminate the speculator and secure for their members the natural demand-supply wholesale price less the necessary handling charges.

A few high-pressure salesmen who are paid a stipulated price per head for securing members continue to use the price-control argument. It is evidently an aid in securing signatures among persons who have read but little concerning the principles of true cooperation.

Both federations and centralized organizations use contracts, although very often the local associations which compose a federation do not have contracts with their individual members. The primary purpose of the federation contract is to insure a definite volume of business in any one year. As a general thing it gives a dissatisfied member the privilege of withdrawing at the end of any business year. The federation is organized to provide efficient market service for its members. If the members feel that the organization is not accomplishing its purpose, that it is not efficient and economical, they are at liberty to seek another marketing agency. The centralized organizations usually have long-time contracts, some of which do not have any provision for members withdrawing before the end of the period. Usually a very severe penalty is imposed upon the member who violates his contract and sells outside the association. The liquidated damage clause of such contracts is discussed in Chapter VII.

[1] See Chapter XIII.

The federated association may be organized on either the stock or non-stock plan, depending primarily upon its need for capital. The centralized type of cooperative is usually organized on a non-stock basis in order to claim exemption from the anti-trust laws. Subsidiary companies are organized for owning processing plants and other marketing equipment.

Federations such as the California Fruit Growers' Exchange and the Danish butter export associations leave to the member associations for whom they act as agent the question of deciding when to sell. They make no effort to control the market. The centralized associations, on the other hand, usually assume full responsibility for time of marketing. They claim title to the product from the time of delivery and sell when the time seems most opportune. Usually the product is fed to the market gradually. If it is fed too slowly, or if an attempt is made to maintain a higher price than demand and supply conditions justify, the association may be left with a large carry-over at the end of the season.

Some of the federated associations pool by grades all the product which they receive. Others sell the product of each member association separately, and leave to the locals the question of settlement with the producers. The centralized associations usually pool the product of the entire area which they cover. The pool is not an essential distinction between the types of central market organizations.

Perhaps the most fundamental difference between the two types of organizations is that the centralized associations place greater dependence upon contracts, liquidated damages, and the powers of the law than do the federated associations. There is also a tendency for the organizers, officials, or management to formulate the program while the member need only sign on the dotted line and obey instructions. The federated associations in general have placed more dependence upon education and service and less upon laws and courts. They believe that a knowledge of cooperation and marketing, and the practice of democracy in management, are excellent aids in maintaining membership loyalty.

An analysis published in 1924 of 100 central market cooperatives located in 33 states showed that the organizations were divided about equally between the centralized and federated types.[2] Centralized organizations are more common for the marketing of poorly standardized perishable products which are marketed through decentralized

[2] Black, John D., and Price, H. Bruce. Bulletin 211, Minnesota Agricultural Experiment Station, p. 99.

marketing systems. Federations are more common for the marketing of standardized staple products which are marketed through centralized marketing systems. The federations rest upon local cooperatives and are therefore more common where local cooperation is best developed.

Each type of organization has many advocates. Students of cooperation are interested in learning which type is most likely to endure. This is a question which cannot be definitely answered in advance. There are, however, many significant facts, some of which have already been discussed. The centralized cooperatives are much less certain of their ability "to fix prices" than they were a few years ago. In fact, there is but little mention of price control by men who occupy responsible positions in any of the successful associations. Some advocates of the centralized plan continue to talk about the "standard cooperative law" and the infallibility of the "standard contract," even though the so-called "standard law" was modified to some extent by the legislatures of various states before enactment, and apparently as large a percentage of the associations which have used the "standard contract" have failed as of the associations which have adopted a contract of somewhat different type. The managers and members of many centralized associations are glad to adopt any policies and practices, regardless of their origin, that they believe will make for greater efficiency in marketing.

In general, the federations have promised less and accomplished more than the strongly centralized associations that talked price fixing. They have undoubtedly gained valuable ideas from the centralized plan.

The differences between the two types of organizations are steadily diminishing. All cooperatives that endure for any length of time will doubtless base their bid for public approval upon an efficiency program backed by sound economic principles.

Local associations that find difficulty in solving marketing problems, either because of their small volume of business or from lack of authority, may well study the accomplishments of the central market organizations.

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CHAPTER XXV

MEMBERSHIP RELATIONS

The cooperative marketing of many of our most important farm products has been described with considerable detail in preceding chapters. These stories of success and failure furnish material evidence concerning the more important factors which enter into cooperative marketing. It is now time to collect and analyze this evidence in so far as it affects certain mooted questions concerning the successful operation of cooperative associations.

The Membership Contract.—The legal phases of membership contracts were discussed in Chapter VII. The membership contract is a Danish contribution to the cooperative movement. It binds the members in a legal way to the support of their own association. Many of the early cooperative companies in this country might have succeeded if they had received the full and loyal support of their members. The membership contract is an aid in securing this support.

The thousands of cooperative organizations which have succeeded without a membership contract indicate that it is not one of the prime essentials. The failure of several large cooperative associations which had very stringent contracts with their members would seem to be ample proof that the contract does not insure the success of a cooperative association.

Most Americans, and particularly American farmers, are characteristically independent. They do not wish to be told what they can or cannot do with their own property. When they produce a crop they wish to sell it when they are ready to sell. They may feel that the possibility of a price increase does not justify holding or they may wish money for the payment of present obligations or for the making of needed purchases. It is also well known that the man who has lost faith in his association is more likely to be a liability than an asset. He may deliver his products because of his contract and a wholesome respect for the long arm of the law, but if he delivers them unwillingly he is almost certain to harbor a resentment against the association and usually lets no opportunity pass to even the score.

A one-year contract is unsatisfactory because of the cost and labor incident to securing renewals. Cooperative leaders have been hunting for something that would contain less potential dynamite. Many men now believe that the happy medium has been discovered.

The Withdrawal Clause.—Membership contracts that contain a withdrawal clause usually run for an even longer term of years than the ordinary long-time contract. The withdrawal clause gives the dissatisfied member the privilege of withdrawing during some specified period of the year, usually a two weeks' period after the major part of the work of marketing the preceding crop is ended and prior to the time when the management must make detailed plans for the handling of the new crop.

Many advocates of the iron-clad contract object vigorously to such a radical modification. Most of their objections can be classified under the following points:

1. Members will withdraw in a bad year.
2. The volume of business that will be handled in any year is uncertain.
3. It is impossible to lay out a long-time program.
4. The withdrawal privilege necessitates a continuous membership drive.
5. Members fear that the organization is not permanent.
6. Contracts containing a withdrawal clause may work with some products but not with a seasonal product.
7. Members are not able to analyze business and know when they are getting proper service, and therefore the withdrawal privilege gives the opponents of cooperation a chance to work upon the membership.
8. The plan is not safe in the present, but may be at some future time.

Many organizations have switched from the "iron-clad" contract to the withdrawal type in spite of the formidable list of objections.

Speaking from experience, they present the following arguments in favor of permitting members to withdraw at some period of the year:

1. The binding contract does not always bind. Men who become thoroughly dissatisfied often find some means of avoiding crop delivery. Sometimes the system of farming is changed and the contracted crop is not grown; sometimes the farm is rented to

someone who has not signed a contract, and sometimes a part of the crop is sold to outside buyers through the agency of some friend. When contract violations are numerous it is almost impossible for an association to detect and punish all violators.

2. Court action has proved to be an unsatisfactory method of holding members. This is true in spite of the admitted fact that membership contracts as now drawn are legal and enforceable and do hold some men. Where one man is held to a long-time contract by court action, two are lost through a land transfer or other device and three are deterred from becoming members.
3. The dissatisfied member does more harm inside of his association than outside. While he is inside he "knocks" and is a disturbing element; once outside he has nothing about which to talk.
4. A contract violator, in order to justify his action to his friends, sometimes resorts to unfair and untrue criticism of his association. This is prevented by the withdrawal privilege.
5. The withdrawal privilege increases the quality of the membership. Many careful, conservative men object to signing a long-time irrevocable contract that places the disposal of some important product entirely in the hands of unknown hired men, although they believe that cooperation is desirable and that the management of a cooperative association should have advance information of the probable business for the year. Such men may be willing to give the cooperative a fair trial but are unwilling to give it control for a long-time period. They have confidence in their own ability because they have been successful in former years.
6. The giving of efficient marketing service is the best possible means of holding old members and obtaining new ones.
7. The withdrawal privilege keeps the management constantly striving to render efficient service at a low cost. They know that if the members become dissatisfied because of unsatisfactory service furnished by highly paid officials the withdrawals will be numerous and the management will be left with nothing to manage.
8. Few members of a well-managed association take advantage of the withdrawal privilege.

The Northwestern Wheat Growers, Associated, the Tobacco Growers' Cooperative Association, the Dark Tobacco Growers' Cooperative

Association, the Minnesota Potato Growers' Exchange, and the Maine Potato Growers' Exchange are examples of relatively short-lived organizations whose history might have been different had they relied more upon efficiency and less upon a long-time "iron-clad" contract. No cooperative organization can long endure after its members lose confidence.

Keeping Out the Member Who Withdraws.—In describing the California Walnut Growers' Association mention was made of the provision of their contract which prevents a grower who has withdrawn from the association from re-entering for at least one year. One other association which has a somewhat similar provision is the California Rice Growers' Association.

Membership Contract a Useful Tool.—In spite of the failure of the membership contract to achieve even a major part of the results promised by its many advocates, it is an excellent tool for the use of cooperative associations. It does bind the members to specific performance. It transforms a moral obligation into a legal one. It is easier for a man to remain loyal to his own company, even though loyalty may result in a present loss, when he knows that other members must also remain loyal.

In every cooperative movement a few men have borne the burden. They have furnished the business to keep the cooperative running when competitors have quoted prices not warranted by market conditions in order to wean away the membership. When the members refused the proffered bait, the cooperative usually succeeded. When a large number of the members accepted the opportunity for present profit without thought of future prices, the cooperative failed. The membership contract is unquestionably an aid in holding the members in line and thus distributing responsibility.

The contract is not a cure-all for the many ills which sometimes beset a cooperative association. It will not overcome the defects of poor management in which a majority of the members have lost faith. It is not even a part of the insignia of cooperation. It is merely a useful tool which many cooperators have used to advantage, and which doubtless will come into even wider use as men come to have more faith in cooperation.

Membership Control.—The members of a cooperative association should feel that they are the company and that they have control of the company. This control is necessarily indirect. The members elect a board of directors who are responsible for the management. As has been stated previously, the most important job of the board

is to elect a competent manager. Of course they must outline business policies and keep an accurate check upon the work of the manager. The directors are responsible to the members. The method of electing directors should be sufficiently direct to permit their removal if they prove incompetent.

Relationship Between a Centralized Association and Its Members. —It is obviously more difficult for a large centralized association to keep in close contact with its members than for a local association. The large association covers a larger area; it has more members, only a few of whom can be acquainted with one another; relatively few members can attend the annual meetings, and there can be little direct contact between the members and the management. As a result of these natural obstacles the members sometimes grow suspicious and resentful and are apt to refer to their association as "they" instead of "we."

Most centralized associations have tried to maintain member contacts. One of the most common methods is through the publication of an association paper. Unfortunately some of these papers have devoted more space to propaganda than to furnishing actual facts. Whenever a member decides that certain statements published in his association paper are incomplete, unfair, or untrue, he begins to lose confidence in the management of the organization. On the other hand some organizations publish papers fairly crowded with information about the association and market conditions. "Washcoegg," published by the Washington Cooperative Egg and Poultry Association, is an unusually fine publication of this type.

Most of the centralized cooperatives recognize the advantage of some form of local organization which brings the members together and gives them a place for the discussion of common problems. The collecting stations and grading centers of the large egg-marketing associations serve as natural centers. A few organizations have put considerable effort into the establishment of local centers in order that members may have contacts with one another.

Circular letters, field men, and occasional regional meetings are other methods used by large centralized cooperatives for keeping in contact with the members and helping to maintain their interest.

Relationship Between a Federated Association and Its Members. —A federated association reaches the members indirectly and directly. Each local unit is a natural center. Most of the members are usually well acquainted with one another and meet occasionally to discuss common problems. Information given to local officers is usually

relayed to the members, and such personal explanations are more satisfactory to many men than are letters or circulars. It is also much easier for the central association to deal with a hundred men as a group than to deal with them as individuals.

The federated association has the same opportunity for furnishing information through a house organ and letters as has a centralized association. It probably has a better contact through field men. For example, the Land O' Lakes Creameries Company employs field men, each of whom covers a definite territory. Part of the work of the field man is to call upon patrons and tell them how to produce Land O' Lakes cream and why it pays to produce sweet cream. The field man looks over the dairy equipment on individual farms, suggests possible improvements, and explains in detail why better equipment and better care pay big dividends. The field man also works with the creameries in his district. If he is unable to solve some particular manufacturing problem he is able to get some man from the central association who can give the manager the necessary help. It is safe to say that the field men have been a very material factor in the progress of the Land O' Lakes Creameries Company.

The federated type of association unquestionably has an advantage over the centralized type in maintaining proper membership relations. It can do everything that the centralized association can do. That it can do some things better than can the centralized is evidenced by the attempts of the centralized associations to establish local groups for the purpose of securing better contacts with the members.

Summary.—Satisfactory membership relations are always based upon confidence. The member must have confidence that the association will render efficient, satisfactory service, and the management of the association must have confidence in the loyalty of the members.

Long-continued confidence is based upon knowledge. The excitement of a brass-band membership campaign or the promises of a high-pressure salesman may give a member confidence in an organization without his having any real knowledge of its possibilities. When the initial enthusiasm wanes the member wants results. He wants to know what his company is really doing. The well-managed company has nothing to conceal. It strives to keep the members fully informed concerning its financial condition. Most of our successful cooperative elevator companies, for example, not only publish annual audits, but at their annual meetings go into such minute details regarding expenditures as to become almost tiresome. If a few members of a cooperative company decide that the management has

been keeping something covered—whether it is a bad sale, spoiled grain, or a large fee to an organizer—the officials have no other recourse than to turn on the pitiless light of publicity. Members may excuse mistakes that are freely admitted; they never forgive the manager or board of directors that attempts to hide the unpleasant truth.

The members should feel that final control of the association is in their hands through their ability to effect changes in the board of directors.

The definite long-time contract with withdrawal privileges is an aid to establishing confidence between the member and his association.

Membership contacts are usually maintained more easily in a federated than in a centralized association.

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CHAPTER XXVI

ORDERLY MARKETING AND SALES POLICIES

Orderly marketing is often discussed but seldom defined. It is one of the popular catch phrases of the cooperative charlatan who holds forth the possibility of price control. It is also one of the ends sought by cooperative associations that base their programs upon the giving of efficient service. Orderly marketing is desired by primary producers, by transportation agencies, by wholesalers, retailers, and ultimate consumers. Not all who advocate orderly marketing have the same thing in mind, but the phrase is at least suggestive of an end that is greatly desired.

Orderly Marketing Defined.—Orderly marketing has been defined as "the marketing of the commodity at the right time and place, in the right quantity and quality."[1] Such a marketing program would eliminate gluts and famines. It would place every commodity on the market at the time and place that would give the greatest net returns to the producer. Products should be distributed among markets not only in proportion to the total quantity demanded but in the proper quantity of the proper quality. The orderly marketing of any important product is no small task.

Orderly Marketing as to Time.—This is the phase of orderly marketing most commonly discussed. It is sometimes proposed that one-twelfth of some product should be placed on the market each month. This is, of course, absurd because consumer demand varies from month to month. For example, more nuts are consumed in the late fall and early winter than during the summer. In the cooperative marketing of soft-shelled walnuts and almonds this variation in consumer demand is taken into consideration and a very considerable part of the nuts are placed on the market in time for the Christmas holiday trade. Raisins, lemons, and fresh pork are three other farm products for which consumer demand varies materially with the season.

[1] Boyle, James E. Marketing of Agricultural Products. McGraw-Hill Book Co., 1925, p. 213.

Orderly Marketing as to Place.—Orderly marketing does not necessarily mean an equal distribution of a product in proportion to either area or population. The demand for men's fur coats in New Orleans and for refrigerators in Labrador is very limited. Farmers purchase few fresh vegetables during the months when city residents purchase them most abundantly. An Italian residence district is a better place for selling grapes than a district inhabited by people of almost any other nationality. Orderly marketing as to place means, therefore, the placing of a commodity in the localities where a demand exists or can be created.

Orderly Marketing as to Quantity.—Price depends primarily upon the relationship existing between supply and demand. If the supply of any desirable thing is increased without a proportionate increase in demand, sellers must lower the price; if the supply is decreased the price rises. An increase in demand causes prices to rise, and a decrease in demand causes them to lower. It is also true that an increase in price results in an increase in the quantity of goods produced and a lowering of the price of goods results in increased consumption. When the quantity of goods that buyers will take at a given price is the same as producers will offer at this price, we have a price that "clears the market."

Orderly marketing of goods as to quantity means, therefore, that the quantity of goods of any given kind placed on a market at a given time, should be limited to the amount that can be sold at a price satisfactory to the seller. If any product, and particularly any perishable product, is produced in large quantities it is easy to see that it may not be possible to clear the local market at a price satisfactory to the seller. In order that such a product may be marketed in an orderly manner it is often necessary to ship a part to other markets.

Orderly Marketing as to Quality.—Not all persons can afford to buy goods of the finest quality, and many other persons are unwilling to buy anything except the best. Orderly distribution demands that the quality product shall be sent to the quality market and the less desirable product to the market where it can be sold. The dime store and the most exclusive shop are alike striving for orderly marketing.

Manufactured Goods and Orderly Marketing.—Most manufactured goods are marketed in an orderly manner. The manufacturer can control the quantity and quality of the product he places on the market. The retailer can control the quantity of his purchases and

to a very considerable extent the quality. The successful manufacturer or merchant has his goods ready at the time needed. The small boy's firecrackers are placed on sale a few days before the Fourth of July, and Christmas tree decorations are ready for the purchaser early in December.

Not all manufactured goods are marketed in an orderly manner. Manufacturers, wholesalers, and retailers sometimes make an incorrect estimate of market demands and as a result must sell some of their goods at a loss. Our semi-annual clearing sales are really "disorderly marketing." The merchants overestimated the quantity demanded, or selected the wrong quality, or possibly did not get their goods on the market at the right time. One cause for the failure of cooperative stores has been the inability of managers to estimate with a reasonable degree of accuracy the quantity and quality of goods that should be purchased.

Orderly Marketing of Farm Products.—The orderly marketing of farm products is more difficult than the orderly marketing of manufactured goods, and the more perishable the product the greater the difficulties. The farmer cannot control the exact quantity of his product. For example, the average yield of potatoes in Florida was 88 bushels per acre in 1924 and 124 bushels per acre in 1925; the total production of peaches in Utah was estimated to be 750,000 bushels in 1924 and only 100,000 bushels in 1925.

The farmer cannot exert complete control over quality because quality as well as quantity is influenced by drought, storms, frosts, plant diseases, and insect pests. The farmer is in almost constant conflict with unfavorable natural forces. Difficulties of transportation and handling also play an important part in the orderly marketing of perishable products. Consumer demand and the sale of competing fruits and vegetables complicate even further the farmer's problem of orderly marketing.

Wheat, corn, oats, cotton, and some other staple farm products that are marketed through exchanges and for which grades are well established are now marketed in a more orderly manner than most perishable farm products.

Problems in the Orderly Marketing of Milk.—The production of milk throughout the year is far from uniform. Cooperative milk-marketing associations and private dealers often have difficulty in finding an economic outlet for surplus milk in May and June, and frequently face the problem of securing adequate supplies of quality milk during the months of decreased production.

The consumption of milk is not uniform from month to month throughout the year, and the period of greatest consumption does not coincide with that of most abundant production.

The consumption of milk is not uniform from day to day throughout the week. In the New York metropolitan area the number of pints of Grade B milk sold on Sundays in the month of February, 1924, was less than 40 per cent of the number sold on Thursdays.[2] In the same district more than twice as many half-pint bottles of heavy cream were sold at retail on Sunday during the year as were sold on Friday.[2] Wholesale sales of cream were more than twice as large on Saturday as on Sunday.[2] Holidays, temperature changes, summer vacations, and price changes are other factors that affect milk consumption.

The demand for products manufactured from milk is not uniform.

The quality of milk produced is variable. It varies not only in fat content but in bacterial count and keeping quality.

Transportation difficulties due to storms, strikes, and accidents sometimes interfere with the delivery of milk at the right time.

In order that milk may be marketed in an orderly manner all these variations in production and consumption must be taken into consideration. The consumer must be supplied with the proper quantity and quality of milk or cream or other products at the time and place that best suits his convenience. It is a big job. Cooperative associations, a few of which are described in Chapter XXIII, are trying to solve some of the problems connected with the orderly marketing of milk.

Potatoes and Orderly Marketing.—Orderly marketing to the potato producer in Florida or southern Texas is primarily a question of getting his crop to the consumer before new potatoes grown farther north enter into competition. The job of the producer is to furnish as good a quality as possible at the earliest possible time. Quality is sometimes sacrificed to the desire to secure the early market. The cooperative association or private distributing agency must send the potatoes to markets that are not already well supplied with new potatoes. Because new potatoes enter into competition with old potatoes during the spring and early summer, those that are dug first must be sent to a market where price is a secondary factor.

As the season advances and new potatoes become more common,

[2] Ross, H. A. Some Factors Affecting the Demand for Milk and Cream in the Metropolitan Area of New York. Technical Bulletin No. 73, U. S. D. A.

quality becomes a more important consideration. The Eastern Shore of Virginia Produce Exchange has achieved success largely by shipping potatoes as soon as dug, to some city not already well supplied with new potatoes. Telephone and telegraph bills have been large, but the association has sold the potatoes as fast as dug and before the potatoes grown farther north could be placed on the market.

One of the mistakes of the Maine Potato Growers' Exchange and the Minnesota Potato Growers' Exchange was the failure to realize how widely potatoes are grown and that while they were holding a perishable product in storage, in order to market it in an orderly manner, the growers in other regions were sending sufficient potatoes to market to supply the demand. When the potato crop harvested is larger than the amount of potatoes ordinarily consumed, orderly marketing is not a question of placing a given quantity of potatoes on the market each month or each week, but of growers who live close to consuming centers placing their crop on the market in ample quantity to supply demands and at a price which limits shipments of potatoes from distant regions. Under such conditions the producers who live farthest from consuming centers are sub-marginal, and their crop will be the least likely to be placed in the hands of the ultimate consumer. Cooperative associations assist in keeping poor potatoes off the market in seasons of surplus and thus make a better market for quality potatoes.

Cooperative potato-marketing associations in the late potato regions do need to consider time of sale. The size of the crop produced at home, the size and quality of the crop produced in other regions that compete in the same markets, the cost of storage, and the extent to which the present price reflects the size of the crop are all factors that need to be considered in formulating a program for the orderly marketing of potatoes.

Orderly Marketing Aids Cranberry Growers.—Cranberries are produced in relatively limited areas and distributed throughout the entire United States. More cranberries are consumed during the last week in November and the month of December than at any other time. In order that the growers may get the most for their product, it is essential that the cranberries be well distributed in advance of the time that consumers buy them. The American Cranberry Exchange, which is a federation of cooperative cranberry-marketing associations, has been very successful in its efforts at orderly marketing. It furnishes plenty of cranberries of good quality for everyone, at the season when they are most desired. Consumption has

been stimulated by advertising. Prices have been in line with the size of the crop to be marketed. The growers have not always received as much as they desired, but the crop has been well distributed and as a result has entered into consumption.

Orderly Marketing of Citrus Fruits.—The California Fruit Growers' Exchange utilizes orderly marketing to the advantage of the members. The production of citrus fruit in California, Florida, and the Gulf Coast is carefully estimated. Knowing the approximate number of carloads of oranges, lemons, and grapefruit that will be marketed, the Exchange is in a position to give advice to its members regarding the rate at which the crop should be picked and shipped.

The Exchange has representatives in all the more important distributing centers in the United States and Canada. These representatives keep the Exchange informed concerning the amount of citrus fruit shipped in from other sources and the probable demand. Refrigerator cars can be started East and diverted to the city which offers the best market. There is no guess work. The Exchange knows market conditions. It secures orderly marketing as to time, place, quantity, and quality. Its program of orderly marketing is aided by advertising and by utilizing off-grade fruit in the manufacture of by-products and thus keeping it off the market.

Orderly Marketing of Fat Lambs.—In the winter of 1927–28 lamb feeders in the Corn Belt secured data upon the number of lambs on feed and the approximate time that the various feeders expected to ship their lambs to market. A plan was worked out to distribute the marketing of these lambs through the season so that there would be neither a glut nor a scarcity during any week. The plan worked successfully. Feeders, packers, and consumers were alike benefited because of the steady shipment of the lambs to market. This is a good example of the true cooperative spirit.

Orderly Marketing of Wheat.—There has probably been more discussion in the Grain Belt of the orderly marketing of wheat than of any other one product. Because wheat sales and shipments are heavy from the middle of July until late autumn, many persons think that the wheat is being dumped and the market glutted. Statistics given in Chapter X show that world production has a much greater influence upon price than has the rate of marketing. The market price of wheat depends primarily upon the amount of wheat that has been produced which will be marketed during the year. As long as the supply marketed is equal to current milling and export needs it makes little difference whether the surplus is stored in an elevator

at the terminal market, in a country elevator, or in a bin on the farm where it was produced.

Wheat is a world crop. It is easily stored. It is bought and sold on grain exchanges on every business day of every year. Terminal market prices are a matter of record and are widely published. Wheat is a staple food for approximately one billion persons, and the majority of them consume it in some form three times each day.

Because of the almost world-wide demand for wheat its production and price are closely studied by many persons. Buyers are constantly watching the market for the opportunity of buying during any price decline.

From the standpoint of orderly marketing the logical time for the United States to sell the major part of its surplus is during the months when other exporting nations are placing little wheat on the world market. These months are the months immediately following our harvest. They are the months when farmers actually do sell the most wheat and when our exports are heaviest.

Perhaps no other crop is marketed in as orderly a manner from the standpoint of the right quantity at the right time and place as is wheat. Most farmers produce as high a quality of wheat as is possible. They necessarily market the quality that they produce. When more is known of protein content and the estimated quantity of high-protein wheat produced in any one year, it may be possible for producers of such wheat to watch for high-protein premiums and thus secure a higher average price.

The increasing use of the combine in the Great Plains may make a material change in wheat marketing. It is certainly increasing the rate at which wheat is sent to market in July, and unfortunately a part of this wheat is high in moisture content. A possible result is that there will be an increase in wheat storage by farmers who do not use the combine. Some groups of producers or buyers will certainly be on the lookout to profit from any departure from the normal price.

Since wheat is already marketed in an orderly manner in the United States, compared with the marketing of most other farm products, the organizations that promise improvements in this particular respect apparently face a somewhat difficult task. Their energies could doubtless be expended in some way that would be of greater benefit to the wheat producers.

Price Increase through Orderly Marketing.—The success of the American Cranberry Exchange, the California Fruit Growers' Ex-

change, the California Walnut Growers, the Corn Belt Lamb Feeders, and other similar cooperative organizations in securing a more orderly marketing of a perishable product holds out hope to the producers of other perishables. Large-scale terminal marketing associations can hope to exert a greater influence upon the orderly marketing of a product than can small local associations.

Staple crops that are sold through organized exchanges will probably not be materially affected by any program of orderly marketing.

Sales Policies.—The idea, once widely heralded, that a large cooperative organization could fix prices upon the products handled without regard to the law of supply and demand has been so thoroughly exploded that it does not merit further discussion. No cooperative association maintains that it is now actually operating under such a policy although one or two associations that are in the membership-campaign stage hold forth such a hope to prospective members.

The California Walnut Growers' Association and a few other organizations which handle a very large proportion of some highly specialized crop not sold on established exchanges do announce a scale of prices at which they are willing to market their product. These prices, however, are demand-and-supply prices and in no sense monopoly prices. The correct demand-supply price is the price that will clear the market. If the price is too high a surplus remains to be marketed at some future time; if too low a price scale is announced, speculators are in a position to buy a large part of the crop and sell it later at the demand-supply price. In order to establish a monopoly price it is necessary to control production. The monopolist produces just the amount that can be sold at the price that will yield the greatest net returns. The decision as to what price will clear the market of goods already produced is a very different matter from deciding what price and volume of product will give the greatest profit.

As has been previously stated, cooperative elevator companies usually sell grain as soon as possible after purchase, and often before it has been delivered to the elevator. They try to avoid speculative holding. Such a sales policy works out well with a commodity that is sold on established exchanges.

Livestock-shipping associations usually ship stock within a few hours of the time that it is delivered to them, deduct expenses when the account sales are received, and remit the balance to the owners. The shipping associations are a good example of the type of organi-

zation that does not buy the product but merely sells it for the members. Most cooperative egg-marketing associations sell eggs as soon as possible after they are received. One large association lost heavily by selling eggs for future delivery before they had been received. The receipts were not up to expectations and the association was compelled to buy eggs in the open market to fulfill its contracts. The association suffered because of an unwise sales policy.

Some cooperative egg-marketing associations have stored a part of their receipts during the months of greatest production. Only large, fresh, infertile eggs are stored. Such eggs stand up well in storage and command a premium over ordinary storage eggs. All egg storage is speculative, but so long as the members approve of the policy and are willing to accept the risk it cannot be classed as objectionable. There is the same justification for a cooperative association storing the eggs produced by the members as for producers storing eggs or wheat or any other product on their own account. Storage is essential to the orderly marketing of eggs because weekly production and consumption do not coincide.

Broilers, butter, apples, cabbage, cranberries, the main potato crop, and various other products must be carried in storage by the grower or some marketing agency. The question for the cooperative association to decide is whether or not it is in a position to perform this necessary market function. There is no one sales policy that is best for all cooperative associations. Sales policies should vary, being dependent upon the nature of the product, the form of the association, and the desires of the members. Perhaps the rule that comes the nearest to being universally applicable is that a cooperative association should avoid speculation. The management should remember that while the individual buyer is speculating with his own money the cooperative association is speculating with the property of the members. They must remember that speculation consists not only in future trading but in holding cotton or tobacco or wheat or some other product for a rise in price. Holding for a price increase is not identical with holding for orderly marketing.

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CHAPTER XXVII

THE FUTURE OF THE COOPERATIVE MOVEMENT

The volume of business transacted by cooperative associations in the United States in 1925 undoubtedly exceeded $2,500,000,000. This enormous total is all the more significant when one recalls that by far the greater part of the development of business cooperation in America has taken place since 1900; in fact, the growth has really been rapid only since about 1910.

Many men do not believe that cooperation is here to stay. They point to the many failures of cooperative effort, some of which have been recorded in preceding chapters, and predict that within a few years the force of the present movement will have spent itself. Are there any reasons to encourage the hope that the cooperative associations of the present day will be more enduring than the communistic ventures of Robert Owen and the unfortunate business experiments of the Grange? If cooperation does succeed, what are its limitations?

Public Sentiment toward Cooperation.—Cooperation has had a long, hard struggle to secure recognition as a legitimate satisfactory method of transacting business. It has been a process of education, and to some extent of experimentation. Cooperation has been opposed not only by men who would suffer financially if it succeeded, but also by men whose belief is strong in "the god of things as they are."

Apparently, public sentiment toward cooperation is changing. The change of sentiment is well reflected in that part of President Coolidge's message to Congress, December 8, 1925, in which he says:

"It has appeared from all the investigations that I have been able to make that the farmers as a whole are determined to maintain the independence of their business. . . . They are showing a considerable skill in organizing themselves to transact their own business through cooperative marketing, which will this year turn over about $2,500,000,000 or nearly one-fifth of the total agricultural business. In this they are receiving help from the Government. The Department of Agriculture should be strengthened in this facility in order

to be able to respond when these marketing associations want help. While it ought not to undertake undue regulation, it should be equipped to give prompt information on crop prospects, supply, demand, current receipts, imports, exports, and prices.

"A bill embodying these principles which has been drafted under the advice and with the approval of substantially all the leaders and managers in the cooperative movement will be presented to Congress for its enactment."

This bill which was mentioned by President Coolidge has since been enacted into law. The Bureau of Agricultural Economics has for several years been collecting information upon cooperative marketing. Under the new law the funds available for this work have been increased and a division of cooperative marketing has been established within the Bureau. The information already available and that which will be collected will undoubtedly prove of assistance to cooperative associations in the process of organization and also to those already organized which need information upon the many factors affecting supply, demand, and prices.

A Statement of Policy toward Agricultural Cooperation.—The interest which has been aroused in the cooperative movement is well exemplified by a statement issued by the Extension Service of the Michigan State College of Agriculture and Applied Science in November, 1925. It is indicative of the thought which not only the Michigan State College but other colleges and other states are giving to cooperation. The statement is in part as follows:

"The Michigan State College believes that it should tell the farmers and public of the state what opinions it holds towards agricultural cooperation, what attitude it proposes to take toward farmers' organizations, and what activities it intends to exercise in this field.

"We believe that cooperation in agriculture should be encouraged and that there are certain advantages which come from it. These advantages are:

"1. It awakens farmers to the necessity of understanding marketing problems as an essential step toward their improvement.

"2. It gives farmers information about market processes and enables them to keep in touch with market conditions so that production may be more nearly kept in harmony with the market demand.

"3. It aids in the dissemination of crop and market news, in the establishment of grades, and in better packing and handling practices which have resulted in benefits to the consumer as well as to the farmer.

"4. It gives the farmer a knowledge of the conditions of supply and demand, and therefore places him more nearly on a parity with those who are buying his product.

Our greatest progress will perhaps come from educating the younger generation in the principles and practices of cooperation, and it is to this task that our farm leaders and our educators should bend their united efforts at this time.'' [2]

Learning from Experience.—Some of the cooperative marketing ventures which have failed most ingloriously furnish excellent examples of how not to organize. Producers and consumers should realize that the ordinary cooperative association is a business venture. It is not founded on sentiment, but upon the hope of securing savings. Brass bands, ''spell binder'' oratory, and ''organized emotional stampedes'' are not a part of sound business decisions. It is not in the least surprising that the man who joins a cooperative association under the stress of revival methods should feel anything but enthusiastic when the excitement is over and he realizes that his name is signed to a legal contract that takes from him the disposition of his product for many years.

The big cooperatives of the future will doubtless grow slowly, but none the less surely. Their members will join voluntarily, and not because of noisy mass meetings and high-pressure salesmanship. Their officers and exponents will furnish statistics as a proof of their efficiency instead of general statements about ''merchandising'' and ''commodity marketing.'' Their house organs will furnish real information instead of propaganda.

Knowledge and Confidence.—Without knowledge there cannot be intelligent, lasting confidence. The chief reason why the Grain Marketing Company did not succeed was lack of confidence which was due largely to lack of knowledge. It was a new venture. No farmer had ever had any experience with so large an organization. The opponents said nothing against cooperation. They merely set up a group of straw men and proceeded to knock them down. The men who would have been most benefited by the success of the company believed at least a part of the statements of the opposition. They became suspicious and decided to wait before buying stock. While they waited, they lost a very unusual opportunity of embarking in the terminal grain-marketing business.

The opposition to cooperation will continue and will remain a formidable factor until knowledge of marketing and cooperation becomes widespread. That knowledge will give men confidence to work together.

[2] Christensen, Chris L. Address to the New England Institute of Cooperation, Amherst, Massachusetts, June 27, 1928.

Possible Limits to Cooperation.—The possible extension of cooperation is limited by three very important factors:

1. The efficiency of the cooperative enterprise compared with the efficiency of the private business.
2. The desire of people to save by performing services for themselves.
3. The possibility of the state's being forced to enter the business field.

Cooperative enterprise has demonstrated that under favorable conditions it can handle staple commodities more efficiently than can private enterprise. Volume of business, standardization, and the understanding that any market service costs money are three factors in its favor. Farm products that are produced in small amount or that do not admit of standardization can be handled better by private business. Style goods can be retailed less advantageously by cooperatives than can staples.

The principal reason why the cooperative consumer movement has not developed in American cities is because the American consumer prefers to pay someone else for performing services for him than to perform them for himself. When producers are prosperous, they are very apt to prefer to turn over the work and worry of marketing to someone else.

Independent, self-confident men are apt to do things for themselves; less vigorous men, with less confidence in their own ability and the ability of their fellow men, are apt to wish the government (Federal, state, or municipal) to take an active part in marketing. We find farmers in many communities buying coal, gasoline, and other commodities through cooperative associations. We find a number of cities endeavoring to regulate competition by entering the business field and selling coal, gasoline, and other commodities.

Government business enterprises have in the past been less efficient than cooperative enterprises. There is little reason to believe that they will prove uniformly successful in the future. The demand for government entry into the marketing field will doubtless retard the progress of the cooperative movement, but cooperation will be in a position to proceed rapidly when the popularity of socialistic ideas wanes.

The accomplishments of the California Fruit Growers' Exchange, the National Cheese Producers' Federation, the Land O' Lakes Creameries, Inc., and the California Walnut Growers' Association forecast

fairly accurately what may be expected of other cooperative marketing associations. The tendency will be to carry the products of the farm to the manufacturer, wholesaler, or exporter. The success of a few buying organizations indicate that we may expect many similar organizations to develop as soon as consumers feel the need and decide to do things by group action instead of asking an overloaded government to enact stricter regulations or to furnish competition whenever the pinch of high prices is felt.

Ultimate Benefit from Cooperation.—Perhaps no better summary of the probable benefits of cooperation can be given than that presented by Dr. H. C. Taylor at the American Institute of Cooperation in 1925. Dr. Taylor, because of his work as an investigator and his experience as Chief of the Federal Bureau of Agricultural Economics, was particularly well fitted to analyze his subject:

"The movement for a more efficient system of marketing has been carried forward with the belief that the gains through cooperation will accrue to farmers. This is undoubtedly true in the first instance. Whether or not, however, the benefits of a more efficient system of marketing are to continue to accrue to farmers, depends upon the way in which this increased income is used. If the increase in income stimulates the demand for land and increases the supply of products, the entire gain may pass over into higher land values or be eliminated through lower prices of products due to increased supplies.

"It is only to the extent that the gains through cooperation are applied to the improvement of the standard of living of the farmers that these gains will continue to flow to farmers. It was with this important fact in mind that Sir Horace Plunkett formulated his program of better farming, better business and better living, recognizing that only to the extent that the results of better farming and better business are applied to better living that the farmers themselves are to reap the benefit. But while the initial benefits of cooperation are economic in character, ultimately the greatest gains to be secured through cooperation may be said to be social or spiritual rather than economic.

"Ever since the Creator breathed life into man and he became a living soul, man has continued to develop. This development has had setbacks, but ultimately the lost ground has been regained and a higher percentage of the people of the world has been found on the higher level, moving forward to a higher life.

"Before this evolution had gone far it became obvious that only by group action could mankind attain the goal set for it by an all-wise Creator. One of the greatest gains to be secured by the cooperative movement is the teaching of men to work together for a common end.

"Economic gain must be at the foundation of the cooperative movement if it is to succeed. This is the motive that will stimulate

action and the bond that will hold men together for joint action, but this economic gain is, in the end, the smaller part of the benefit to be secured through cooperation. The great gains are to be found in the higher type of civilization, the larger outlook and the clearer vision which comes from working together in reaching out farther toward the consumer with the product, or out farther toward the producers of the things we buy. The educational value of cooperation leads to intelligent guidance of production, the right grading and packing of the product for the market, and it results in a sympathetic interest in the welfare of the consumers of the product."

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APPENDIX

In this Appendix are given a representative law for cooperative associations having capital stock, articles of incorporation and by-laws for a cooperative elevator company, an "iron-clad" contract, two membership contracts with withdrawal privilege. and a simple membership agreement for an egg-marketing association.

NEBRASKA COOPERATIVE LAW FOR ASSOCIATIONS HAVING CAPITAL STOCK

Par. 642. Companies, how formed. Any number of persons, not less than twenty, or any number of cooperative companies, not less than five, may form and organize a cooperative corporation for the transaction of any lawful business by the adoption of articles of incorporation in the same manner and with like powers and duties as is required of other corporations except as herein provided.

Par. 643. Articles of incorporation. Every such cooperative company shall provide in its articles of incorporation:

First. That the word "cooperative" shall be included in its corporate name, and that it proposes to organize as a cooperative corporation.

Second. That no one person shall own, either directly or indirectly, more than *five per cent (5%) of the capital stock of the company: Provided,* cooperative companies owning capital stock in another such company shall in no event or manner own more than twenty per cent (20%) of such stock.

Third. That dividends on the capital stock shall be fixed but shall not exceed eight per cent (8%) per annum of the amount actually paid thereon.

Fourth. That the company shall set aside each year to a surplus fund not less than five per cent (5%) of the earnings or savings of the company over and above all expenses and dividends or interest upon capital stock as provided in part three, until such surplus fund equals at least twenty per cent (20%) of the capital stock paid. This surplus may be used for conducting the business of the corporation.

Fifth. That the net earnings or savings of the company remaining after making the distribution provided in Parts Three and Four shall be distributed on the basis of or in proportion to the amount or value of property bought from or sold to members, or members and other patrons, or of labor performed, or other services rendered to the corporation;

Provided: That this paragraph shall not be so interpreted as to prevent a cooperative company from declaring patronage dividends at different rates upon different classes or kinds or varieties of goods handled, and further provided that nothing in this or the two preceding paragraphs shall be so interpreted as to prevent a company from appropriating funds for the promotion of cooperation and improvement in agriculture.

Sixth. That the by-laws of the company shall give a detailed statement of the method followed in distributing earnings or savings.

Par. 644. Powers. Every cooperative company which shall organize under this act shall have power:

First. To have succession by its corporate name.

Second. To sue and be sued, to complain and defend in courts of law and equity.

Third. To make and use a common seal, and alter the same at pleasure.

Fourth. To hold personal estate, and all such real estate as may be necessary for the legitimate business of the company.

Fifth. To regulate and limit the right of stockholders to transfer their stock.

Sixth. To appoint such subordinate officers and agents as the business of the corporation shall require, and to allow them suitable compensation.

Seventh. To adopt by-laws for the management and regulation of the affairs of the company.

Eighth. To purchase, hold, sell, assign or transfer the shares of the capital stock of other cooperative companies which it may own, and while owner of such stock, to exercise all the rights, powers and privileges of ownership, including the right to vote thereon.

Ninth. To provide that each individual stockholder may be limited to one vote per person, regardless of the number of shares of stock which he may own, at any stockholders meeting.

Tenth. To limit the amount or percentage of the total business which may be transacted with non-members.

Eleventh. To enter into contracts with its members relative to the sale or handling of products. These contracts may require the members to sell for any period of time, not over five years, all or a stipulated part of their specifically enumerated products through the association or to buy specifically enumerated supplies exclusively through the association, but in such case a reasonable period during each year after the first two years of the contract shall be specified during which any member, by giving notice in prescribed form, may be released from such obligation thereafter. In order to protect itself in the necessary outlay, which it may make for the maintenance of its services, the association may stipulate that some regular charge shall be paid by the members for each unit of goods covered by such contract whether actually handled by the association or not, and in order to reimburse the association for any loss or damage which it or its members may sustain

through the member's failure to deliver his products to or to procure his supplies from the association.

In case it is difficult or impracticable to determine the actual amount of damage suffered by the association or its members through such failure to comply with the terms of such a contract, the association and the members may agree upon a sum to be paid as liquidated damages for the breach of his contract, said amount to be stated in the contract.

Twelfth. To purchase from members, or their administrators, executors or heirs, to take ownership of its stock through relinquishment or reassignment upon failure of members to comply with contracts of purchase, and resell or redispose of the same.

Par. 645. Fees. The fees for the incorporation of cooperative companies shall be the same as those required by law of other corporations. And such cooperative corporations shall be required to make the same reports and filings as is required of other corporations.

Par. 646. Use of name. No corporation, company, firm or association which shall not be incorporated as a cooperative corporation shall adopt or use the words "cooperative" or any abbreviation thereof as a part of its name. Any person or company violating the provisions of this section shall be deemed guilty of a misdemeanor and for each day's continuance of the offense fined in a sum not to exceed one hundred dollars.

Par. 647. Dissolution. Wherever the number of members of a cooperative company composed of individual stockholders shall be less than twenty, the said company shall terminate and the same shall be dissolved without any action on the part of the state.

SUGGESTED ARTICLES OF INCORPORATION AND BY-LAWS FOR A COOPERATIVE ELEVATOR COMPANY

ARTICLES OF INCORPORATION

Preamble

We, the undersigned, do hereby associate ourselves together for the purpose of forming a cooperative corporation under the cooperative corporation laws of the State of Nebraska, and for that purpose do hereby adopt these Articles of Incorporation:

Article I.—Name

The name of this corporation shall be .... Cooperative Elevator Company.

Article II.—Place of Business

The principal place of transacting the business of this corporation shall be at ...., ... County, Nebraska.

Article III.—General Nature of Business

The business of this corporation shall be to buy and sell for itself or to handle and ship on commission, grain, farm produce, coal, livestock, and farm supplies; to purchase, hold, or lease real estate or other property for the use of the corporation in conducting its business; to direct, own, control, lease or operate grain elevators, warehouses, storehouses, and other buildings, and to acquire property in any terminal markets necessary in conducting said business; to purchase and to hold stock in other corporations; to borrow money; to purchase and to execute, and deliver conveyances and to secure the same; and to do, perform, and carry on the aforesaid business in the State of Nebraska.

Article IV.—Capital Stock

The authorized capital stock of this corporation shall be twenty-five thousand dollars ($25,000) divided into two hundred fifty shares of one hundred dollars ($100) each, which stock shall be fully paid up in cash when issued and shall be non-assessable.

Article V.—Life of Corporation

The term of the existence of this corporation shall commence on the .... day of ...., A.D. 192...., and the same shall continue for a term of fifty (50) years from said date unless sooner dissolved by a majority of the stockholders or by operation of law.

Article VI.—Indebtedness

The highest amount of indebtedness or liability to which this corporation may at any time subject itself shall be two-thirds of its paid-up capital stock.

Article VII.—Ownership of Stock

No person may own, either directly or indirectly, more than five (5) per cent of the capital stock of this company.

Article VIII.—Dividends

If there are any surplus savings or earnings of this corporation after paying all expenses of this corporation and setting aside a reasonable amount for depreciation, the board of directors may declare a dividend of not to exceed seven (7) per cent per annum upon the par value of the paid-up capital stock. The board of directors shall set aside a part of the earnings to a surplus fund as provided by the Nebraska statutes and the by-laws of this corporation, and may then appropriate as a patronage dividend a part or all of the remaining earnings and such division shall be made according to the by-laws of said corporation herein after adopted.

Article IX.—***Amendments***

These articles may be amended by a two-thirds vote of the stockholders present at any regular meeting, or at any special meeting called for that purpose provided a notice of the meeting and a copy of the proposed amendment be mailed to each stockholder's last known post-office address at least seven (7) days prior to the date of such special meeting.

Article X.—Officers

The business of this corporation shall be conducted by the following board of seven (7) directors until the first annual meeting as provided by its by-laws:

John Doe, President	Thos. Brown
Richard Roe, Vice-President	Wm. Smith
B. A. Farmer, Secretary-Treasurer	John A. Johnson
	A. K. Davis

Signatures of Incorporators

BY-LAWS

............................Cooperative Elevator Company
........................Nebraska

Article I.—Capital Stock

Section 1. Authorized. The authorized capital stock of this corporation shall be twenty-five thousand dollars ($25,000) divided into two hundred fifty (250) shares of the par value of one hundred ($100) dollars each. All shares shall be fully paid in cash when issued and shall be non-assessable and the corporation shall not commence business until fifteen thousand dollars ($15,000) shall have been subscribed and paid.

Section 2. Treasury Stock. The treasury stock of this corporation shall consist of such issued and outstanding stock of the corporation as may be donated to or otherwise be acquired by it, and shall be held subject to disposal by the Board of Directors.

Section 3. Stock Certificates. A certificate of stock shall be issued to each holder of fully-paid stock. Each certificate shall state the par value of the stock, the number of shares represented, the name of the person to whom issued, and shall bear the signatures of the President and Secretary-Treasurer and the seal of the corporation, and be numbered and issued in numerical order from the stock certificate book.

Section 4. Sale of Stock. In case of sale, the stock must be transferred upon the books of the corporation, either in person or by the power of attorney, duly appointed and constituted, upon surrendering the certificate

of stock for cancellation, and no transfer shall be valid unless the same has been duly entered upon the books of the corporation. When this has been done a new certificate of stock shall be issued to the purchaser of the stock.

Section 5. Transfer Fee. A fee of fifty cents shall be paid to the secretary for each transfer of stock.

Article II.—Membership

Section 1. Eligibility. Any person whose application for membership is accepted by the Board of Directors may become a member of this company by purchasing at least one share of capital stock.

Section 2. Removal of Members. Whenever any member of this corporation shall remove from this community and shall no longer be able to sell grain at this elevator, the Board of Directors may at their option upon sixty (60) days' notice, if funds are available, take up the stock held by him, paying therefor the asset value of said stock as shown by the books of this corporation, less any indebtedness then due the corporation. Such shares shall then become treasury stock of the corporation.

Section 3. Reversions. If any member shall by purchase or by operation of law come into possession of more than five (5) per cent of the capital stock of this corporation, the Board of Directors may elect to purchase such excess shares upon tender to him of the book value thereof, together with any dividends and refunds then due and unpaid. Also in the event of the death or disability of the owner of any shares of stock in this corporation, such shares of stock shall revert to the corporation upon the tender of payment by it to his heirs or legal representative the book value of same together with any dividends or refunds then due or unpaid, or it may elect to transfer such shares to his heirs or legal representative.

Article III.—Annual and Special Meetings

Section 1. Annual Meeting. The annual meeting of the stockholders of this company shall be held in ...., Nebraska, on the third Monday in February of each year, if not a legal holiday, but if a legal holiday on the next business day following.

Section 2. Special Meetings. The Board of Directors may call a special meeting of the members at any time and must call a special meeting upon the written request of fifteen members.

Section 3. Notice of Meetings. Written or printed notice of every regular or special meeting of the members shall be prepared and mailed to the last known post-office address of each member, not less than seven days before the date of such meeting, and if for a special meeting, such notice shall state the purpose thereof, and no business shall be transacted thereat except that mentioned in said notice.

Section 4. Voting Power of Members. Each member shall have one

vote and but one on all questions and in all elections regardless of the number of shares of stock held.

Section 5. Quorum. One-fifth of the stockholders shall constitute a quorum for the transaction of business at any regular or special meeting. A majority of all votes cast shall carry on all questions or adoptions except amendments to the constitution and by-laws, which shall require a two-thirds vote of the members present.

Section 6. Order of Business and Rules of Order. In all meetings of this corporation the business shall be transacted in the order prescribed and in accordance with these rules of order.

1. Call to order
2. Reading of minutes of last meeting
3. Report of the president
4. Report of the secretary-treasurer
5. Other reports
6. Unfinished business
7. New business
8. Election of officers
9. Miscellaneous work
10. Adjournment

All decisions, rulings and actions on questions in any meeting of this corporation for which there are no provisions made in the by-laws or rules of order of this corporation shall be in accordance with Roberts' Rules of Order.

Article IV.—Officers

Section 1. Directors. The business of this corporation shall be conducted by a board of seven directors. The members of the first Board of Directors shall hold office until the first annual meeting of the members when their successors shall be elected from among the membership of the corporation for terms of office as follows: three for one year, two for two years, and two for three years. Upon the expiration of the terms of the directors so elected their successors shall be elected for terms of three years. Directors shall hold office until their successors shall have been elected and have qualified and entered upon the discharge of their duties. All voting for directors shall be by ballot.

Section 2. Election of Officers. The Board of Directors shall meet within ten days after the first election and within ten days after each annual election, and shall elect by ballot from among themselves a President, Vice-President, and a Secretary-Treasurer. Such officers, unless sooner removed, shall hold office for one year or until their successors are elected and have qualified.

Section 3. Vacancies. The Board of Directors shall fill by appointment

any vacancy occurring in its membership, which appointment shall hold only until the next annual meeting, when the members shall elect a stockholder to serve the unexpired term.

Section 4. Quorum. A majority of the Board of Directors shall constitute a quorum at any meeting of the Board of Directors, but no proposition shall carry unless at least four members of the board shall vote in the affirmative.

Section 5. Compensation. The compensation of the Directors and officers other than the manager, shall be determined by the members of the company at any regular or special meeting.

Article V.—Duties of Directors

Section 1. Management of Business. The Board of Directors shall have general supervision and control of the business and the affairs of the corporation and shall make all necessary rules and regulations not inconsistent with law or with the constitution and by-laws, for the management of the business and the guidance of the officers, employees, and agents of the Company. They shall have installed an accounting system which shall be adequate to the requirements of the business and it shall be their duty to require proper records to be kept of all business transactions.

Section 2. Employment of Manager. The Board of Directors shall have power to employ and to dismiss a business manager, and to fix his compensation.

Section 3. Bonds. The Board of Directors shall require the manager and all other officers, agents, and employees charged by the corporation with responsibility for the custody of any of its funds or property to give bond for the same. Such bond shall be furnished by a responsible bonding company approved by the Board of Directors and the cost thereof shall be paid by the corporation.

Section 4. Meetings. The Board of Directors shall meet once each month at such time as they may agree upon.

Section 5. Annual Audits. At least once in each year the Board of Directors shall secure the services of a competent and disinterested auditor or accountant who shall make a careful audit of the books and accounts of the corporation and render a report in writing thereon, which report shall be submitted to the members of the corporation at their annual meeting.

Section 6. Depreciation. Before determining the net worth of the company the Board of Directors shall make a reasonable allowance for depreciation upon the original value of all buildings, office fixtures and equipment.

Section 7. Educational Work. The Board of Directors are authorized to conduct educational work for the purpose of stimulating interest in cooperative activity; to subscribe for and have sent to the members such cooperative literature and publications as they may determine upon, and to obtain membership for this corporation in any state association or other

organization of cooperative companies which may tend to further the object and purposes of this Company.

Article VI.—Duties of Officers

Section 1. President. The president shall preside over all meetings of the company and of the Board of Directors, sign as President with the Secretary-Treasurer all stock certificates, notes, deeds, contracts, conveyances, agreements, and other instruments requiring such signatures, call special meetings of the company and of the Board of Directors, and perform all acts and duties usually required of an executive and presiding officer.

Section 2. Vice-President. In the absence or disability of the President, the Vice-President shall preside and perform the duties of the President.

Section 3. Secretary-Treasurer. The Secretary-Treasurer shall keep a complete record of all meetings of the Company and of the Board of Directors, sign as Secretary-Treasurer with the President, all stock certificates, notes, deeds, contracts, conveyances, agreements, and other instruments requiring such signature; serve all notices required by law and by these by-laws; keep a complete record of all business of the company and make a full report of all matters and business pertaining to his office to the members at the annual meetings; make all reports required by law and perform such other duties as may be required of him by the Company or by the Board of Directors.

The Secretary-Treasurer shall be the custodian of the permanent funds of the corporation. He shall keep or cause to be kept a full and complete record of all receipts and disbursements.

Article VII.—Duties of Manager

Section 1. In General. Under the direction of the Board of Directors the Manager shall have general charge of the ordinary and usual business operations of the Company. He shall deposit all moneys which come into his possession in a bank selected by the Board of Directors and shall make all disbursements therefrom by check.

Section 2. Duty to Account. He shall be required to maintain his records and accounts in such manner as will at all times show the true and correct condition of the business. He shall render annual and periodical statements in the form prescribed by the Board of Directors. He shall carefully preserve all books, documents, correspondence, and records of whatever kind pertaining to the business which may come into his possession. He shall prepare daily and file in the Company's office a grain statement which shall show the total amount of each kind of grain in the elevator, in transit unsold, contracted from farmers and undelivered, together with the total amount in store, and due on open sales as well as the amount represented by purchases or sales of futures, all of which shall be arranged

to show the net amount of each kind of grain long or short at the close of business each day.

Section 3. Duty to Insure. He shall be required at all times to keep the property of the Company well and fully insured which insurance must extend to and cover grain and property of all kinds, regardless of ownership, which may be in possession of the Company or stored by it.

Section 4. Control of Help. He shall have control over and may employ and dismiss all agents and employees of the Company not specially employed by the Board of Directors.

Article VIII.—Earnings

Section 1. Apportioned. At the end of each fiscal year the total net earnings of the Company which remain over and above all expenses and a reserve for depreciation, shall be apportioned in the following manner:

(*a*) *Dividend on Capital Stock.* There shall be appropriated for the purpose of providing a dividend on capital stock a sum not to exceed seven (7) per cent of the amount of capital stock issued and outstanding.

(*b*) *Surplus.* There shall be appropriated annually for the purpose of creating a surplus not less than ten (10) per cent of the net earnings remaining after paying the dividend on stock until such surplus shall equal at least fifty (50) per cent of the capital stock paid. This surplus may be used for the purchase of treasury stock and for conducting the business of the corporation.

(*c*) *Educational.* There may be appropriated for educational purposes and for promoting cooperation and improvement in agriculture a sum not exceeding five (5) per cent of the net earnings.

(*d*) *Patronage Refund.* The remainder of the net earnings shall be apportioned upon patronage in accordance with the method stipulated in Section 2.

Section 2. Method of Refund. The earnings upon grain operation, the earnings upon miscellaneous products, and the earnings upon the supplies and merchandise operations shall be segregated into groups (*a*), (*b*), and (*c*), respectively. Additional groups shall be established only as are necessary to provide for various commodities handled on widely varying net margins. Special transactions handled on the basis of actual cost of service shall be excluded in computing patronage refunds hereunder.

(*a*) *Grain Rate.* The total net earnings which accrue from grain operations after deducting an equitable proportion of all expenses and the appropriations provided for in Section 1, shall be divided by the total number of bushels of grain of all kinds bought by the Company during the year. The result shall be the patronage refund rate per bushel to be applied to grain purchased from members.

(*b*) *Miscellaneous Products Rate.* Patronage refund rates for other products bought by the Company shall be determined in the same manner

as provided for grain except that they shall be determined upon the basis of money value.

(c) *Merchandise Rate.* The total net merchandise earnings which accrue from merchandise and supplies operations after deducting an equitable proportion of all expenses and the appropriations provided for in Section 1 shall be divided by the total volume in dollars of the merchandise sales during the year. The result shall be the patronage refund rate in per cent to be applied to merchandise sales.

Section 3. Member's Share. Each member shall receive patronage refunds based upon the total volume of grain and other products sold to the Company and the volume of supplies and merchandise of all kinds bought from the Company during the year which shall be computed by applying the refund rates as determined under divisions (a), (b), and (c) of Section 2 hereof.

Section 4. Non-member's Share. Each non-member may receive patronage refunds under the provision of this Article at one-half the rate which is paid to members, provided that refunds appearing to his credit shall first be applied to the purchase for him of one share of the capital stock of this corporation.

Section 5. Disposal of Unapportioned Share and Non-Members' Unapplied Refund. Earnings on the business of non-members not paid to them as patronage refund, and any patronage refund payable to non-members which is not accepted under the conditions of Section 4, shall be placed in the surplus fund.

Section 6. Notice of Refund Due Non-members. At least once each year there shall be mailed to each non-member entitled to refund a notice which shall state the amount of refund due, the conditions under which the refund will be made, and which shall contain a suitable form of application for membership.

Section 7. Capital Impairment. In no event shall dividends on capital stock, as provided for in division (a) of Section 1 hereof, be paid out of the capital stock, but in case the earnings of the corporation in any year shall be insufficient for this purpose a sum equal to such deficiency may be set aside from the earnings of the following year before any portion of these earnings is made available for patronage refunds.

Article IX.—Sundry Provisions

Section 1. Extension of Credit. The business of this corporation shall so far as possible be conducted on a cash basis. All accounts due and unpaid at the end of thirty days shall bear interest at the rate of 10 per cent from the date of sale and all sales, tickets, or bills of sale shall so state.

Section 2. Collective Buying. All merchandise purchased through the corporation other than that regularly carried in stock shall be paid for in cash by the members ordering such supplies at the time of ordering the

same, or the money may be deposited with a bank which has been approved by the Board of Directors, at the time of ordering.

Section 3. Amendments. These by-laws may be amended or repealed by a two-thirds vote of the stockholders present at any annual or regularly called special meeting, but no change shall be made at any special meeting unless notice of the proposed change shall have been given in the call for said meeting.

THE NEBRASKA WHEAT-POOL CONTRACT

The Nebraska Wheat Growers' Association Non-Stock Cooperative, a cooperative marketing Association, with its principal office at Hastings, Nebraska, hereinafter called the Association, first party, and the undersigned Grower, second party, agree.

Objects of Association. 1. The grower is a member of the Association and is helping to carry out the express aims of the Association for cooperative marketing; for minimizing speculation and waste; and for stabilizing wheat markets in the interest of the grower and the public, through this and similar obligations undertaken by other growers.

2. The Association agrees to buy and the Grower agrees to sell and deliver to the Association all of the wheat produced by or for him or acquired by or for him as landlord or lessor during a period of five years from the date this contract becomes effective.

The Grower may retain wheat for feed, and seed to be sown by himself; or to be sold for seed directly to other growers.

3. The Grower expressly warrants that he is now in a position to control said crops and has not heretofore contracted to sell, market, or deliver any of his said wheat to any person, firm or corporation, except as noted at the end of this agreement. Any wheat covered by such existing contracts or crop mortgages shall be excluded from the terms hereof for the period and to the extent that the lien-holder so legally enforces his right to possession thereof.

4. (*a*) All wheat shall be delivered at the earliest reasonable time after harvest, to the order of the Association, at the warehouse or elevator controlled by the Association; or at the nearest public warehouse or elevator, if the Association controls no elevator or warehouse; or by shipment as directed to the Association and by delivery of the endorsed wheat tickets or warehouse receipts or bills of lading properly receipted or endorsed.

(*b*) Any deduction or allowance or loss that the Association may make or suffer on account of inferior grade, quality or condition at delivery, shall be charged against the Grower individually. Any deduction or allowance or loss that the Association may make or suffer on account of deterioration in quality or reduction of grade after delivery shall be charged against the Association and be regarded as selling expense.

(c) The Association may make reasonable rules and regulations and provide inspectors or graders, to standardize and grade the quality and the method and manner of handling and shipping such wheat; and the Grower agrees to observe and perform any such rules and regulations and to accept the grading established by the State and Federal authorities and the Association.

5. The Association shall pool or mingle the wheat of the Grower with wheat of a like variety, quality or grade delivered by other growers. The Association shall classify wheat by quality, grade, variety, or any other commercial standards; and this classification shall be conclusive.

6. The association agrees to resell such wheat together with wheat of like variety, quality, grade and classification, delivered by other growers under similar contracts, at the best prices obtainable by it under market conditions; and to pay over the net amount received therefrom (less freight, insurance and interest), as payment in full, to the Grower and Growers named in contracts similar hereto, according to the value of the wheat delivered by each of them, after deducting therefrom, within the discretion of the Association, the costs of handling, storing, grading and marketing, and an Association charge of not to exceed two per cent of the gross resale proceeds. From this charge general organization and other general Association expenses shall be deducted and commercial reserves created; and any other proper deductions made, in the discretion of the Association. Any annual surplus from such Association charge must be prorated among the growers delivering wheat in that year on the basis of their respective deliveries.

The Advance Payment. 7. (a) The Grower agrees that his wheat and the proceeds therefrom shall be so mingled and that the net returns therefrom, less all costs, advances and charges, shall be credited and paid to him on a proportional basis, considering all differentials and adjustments, out of the receipts from the sale of all wheat of like variety, quality, grade and classification.

(b) The Association agrees to pay the Grower as substantial an advance payment on the wheat as the market and financial conditions will permit, as soon as practicable after delivery.

(c) Each pool shall be for a full season; and payment shall be made from time to time as rapidly as possible, in due proportion, until the accounts of each pool of the season are completely settled.

Sales Direct to Mills. 8. The Association may sell the said wheat within or without this country, directly to millers or exporters, or otherwise, at such times and upon such conditions and terms as it may deem profitable, fair and advantageous to the Grower; and it may sell all or any part of the wheat to or through any agency, now established, or to be hereafter established, for the cooperative marketing of wheat in other states or countries, at such times and upon such conditions as will serve the joint interest

of the grower and the public; and any proportionate expenses connected therewith shall be deemed marketing costs under Paragraph 6.

9. The Grower agrees that the Association or any central or district agency shall borrow money without any limitation or restriction whatsoever, each in its name on any wheat through drafts, acceptances, notes or otherwise, or on any warehouse receipts or bills of lading or upon any accounts for the sale of wheat or on any commercial paper delivered therefor. The Association, in its discretion, shall prorate the money so received among the growers equitably, as may be determined for each district and period of delivery, or use any part thereof for any of its corporate activities or purposes.

The Association agrees to accept drafts drawn against it by the Grower for any amount specified and determined by it, upon delivery of wheat hereunder; and to assist the Grower to discount such drafts, secured by the warehouse receipt or wheat tickets, through the most advantageous banking system.

10. The Association may establish selling offices, warehouses, plants, marketing, statistical or other agencies in any place.

May Stop Growing Wheat Any Time. 11. The Grower shall have the right to stop growing wheat and to grow anything else at any time at his free discretion; but if he produces any wheat during the term hereof, it shall all be included under the terms of this contract and must be sold only to the Association.

12. Nothing in this contract shall be interpreted as compelling the Grower to deliver any specified quantity of wheat per year; but he shall deliver all wheat produced or acquired by or for him as landlord or lessor.

13. (*a*) This contract shall be binding upon the Grower as long as he produces wheat directly or indirectly, or has the legal right to exercise control of any commercial wheat or wheat-growing land or any rights or interest therein during the term of his contract.

(*b*) If this contract is signed by the members of a co-partnership, it shall apply to them and each of them individually in the event of the dissolution or termination of the said co-partnership.

Mortgaged Wheat. (*c*) If the Grower places a crop mortgage upon any of his crops during the term hereof, the Association shall have the right to take delivery of his wheat and to pay off all or part of the crop mortgage for the account of the Grower and to charge the same against him individually.

The Grower must notify the Association prior to making any crop mortgage; and the Association may advise the Grower in any such transactions.

14. From time to time the Grower agrees to mail to the Association any statistical data requested, on the forms provided for that purpose by the Association.

15. This contract is one of a series generally similar in terms, comprising, with all such contracts signed by individual growers or otherwise, one single contract between the Association and the said Grower, mutually and individually obligated under all of the terms thereof. The Association shall be deemed to be acting in its own name, for all such growers, in any action or legal proceedings on or arising out of this contract.

16. (*a*) The Grower hereby expressly authorizes the Association to deliver to any warehousing or elevator corporation, organized for cooperation with this Association or otherwise, any or all of his wheat for handling, processing, or storing; and to charge against his wheat the prorated costs of such service and the prorated share of the funds necessary to create reserves, or to be used to build or acquire elevators.

(*b*) The Grower shall not be charged for such deductions except on account of warehouses or elevators within his immediate district for his use and benefit, as determined conclusively by the Association; and for such deductions the Grower shall receive proportionate interests in such warehouses or elevators. Terminal plants shall be chargeable against all growers.

17. If the Grower has any wheat on hand, when this contract becomes effective, free of liens and capable of delivery, he shall deliver such wheat to the Association as it may direct, to be graded by the Association and to be marketed by it in pools wholly separate from all other deliveries here made, but generally in the manner herein set forth.

Liquidated Damages and Injunction for Violation. 18. (*a*) Inasmuch as the remedy at law would be inadequate; and inasmuch as it is now and ever will be impracticable and extremely difficult to determine the actual damage resulting to the Association, should the Grower fail so to sell and deliver all of his wheat, the Grower hereby agrees to pay to the Association for all wheat delivered, sold, consigned, withheld or marketed by or for him, other than in accordance with the terms hereof, the sum of twenty-five cents per bushel, as liquidated damages for breach of this contract, all parties agreeing that this contract is one of a series dependent for its true value upon the adherence of each and all of the growers to each and all of the said contracts; and that the said amount is fair and reasonable and is not imposed as a penalty.

(*b*) The grower agrees that in event of a breach or threatened breach by him of any provision regarding delivery of wheat, the Association shall be entitled to an injunction to prevent breach or further breach hereof and to a decree for specific performance hereof; and the parties agree that this is a contract for the purchase and sale of personal property under special circumstances and conditions and that the buyer cannot go to the open markets and buy wheat to replace any which the grower may fail to deliver.

(*c*) If the Association brings any action whatsoever, by reason of a breach or threatened breach hereof, the Grower agrees to pay to the Associa-

tion all costs of court, costs for bonds and otherwise, expenses of travel and all expenses arising out of or caused by the litigation and any reasonable attorney's fees expended or incurred by it in such proceeding; and all such costs and expenses shall be included in the judgment and shall be entitled to the benefit of any lien securing any payment thereunder.

19. The Association is expressly authorized to exercise any or all of the grading, inspecting, marketing, financing, borrowing, or other powers or rights granted hereunder through any central agency to be organized for coordinating the activities of this and generally similar cooperative marketing associations in other states or countries. The Association shall, if possible, enter into a contract for such purpose and may agree to pool the products delivered hereunder with products of similar variety, grade and quality delivered to such generally similar associations under marketing agreements substantially the same in effect as this agreement; and to unite with any such Association in the joint purchase, construction, lease or use of terminal or other facilities, and to assume obligations therefor.

Establishing Central Agency. Any costs of maintaining any such central agency shall be prorated among the said associations on the basis of the gross sale proceeds from the products delivered by them respectively and shall be considered part of the costs and deductions provided for in Paragraph 6 hereof. The Association agrees to assist in forming such central agency as soon as possible, with other associations having similar contracts.

End of Marketing Contract. 20. It is expressly agreed that this instrument is one of a series substantially identical in terms. All such instruments shall be deemed one agreement for the purpose of binding the subscribers, to the same extent as if all of the subscribers had signed only one such agreement.

21. The Grower agrees that there are no oral or other promises, agreements, convenants or conditions in addition to or at variance with this Contract; and that this represents the full and complete understanding of the parties to the Association Marketing Contract.

22. From the membership fee of $10, I authorize the organization to deduct $1 per year for which I subscribe for the official publication for a period of five years.

My wheat acreage sown 1927..............................

My average wheat acreage..................................

Read, considered and signed at .... this ....
day of .... 192....

Mortgage or other liens on my 19.... crop ....

Mortgagee ....

Mortgagee ....

....

....

(*Grower Signs Here*)

Postoffice Address ....

County ....

Sec................ Twp................. Range................

Delivery Point ....

....

(*Print Grower's Name Here*)

Solicitor ....

Application for Membership. The undersigned wheat grower hereby applies for membership in The Nebraska Wheat Growers' Association Non-Stock Cooperative, organized under the Cooperative Marketing Act of the State of Nebraska, and agrees to abide by all of the provisions of the by-laws and the marketing contract.

Membership Paid By..

Number Acres Owned..

Number Acres Rented..

....

(*Grower Signs Here*)

Accepted at Hastings, Nebraska, ... 192....

THE NEBRASKA WHEAT GROWERS ASSOCIATION

Non-Stock Cooperative

By ....Secretary

This Contract approved and accepted by the Association by authority of an expressed resolution of the Board of Directors, dated at Hastings, Nebraska, this .... day of .... 192....

CONTRACT NO. ....

AVERAGE ACREAGE ....

AGREEMENT BETWEEN CALIFORNIA FRUIT GROWERS' EXCHANGE AND ITS DISTRICT EXCHANGES

THIS AGREEMENT, made this .... by and between the California Fruit Growers' Exchange, a corporation organized under the laws of California, party of the first part, and certain corporations affiliated with the party of the first part, and who execute this agreement, parties of the second part:

WITNESSETH: That, Whereas, it has been deemed necessary by the parties of the second part to associate themselves together, and cooperate in the matter of developing the citrus industry and marketing its products for the following named:

PRINCIPAL PURPOSES AND OBJECTS

To lessen the cost of marketing by creating Agencies who will act for each member.

To insure the collection of sales.

To facilitate the collection of damage claims.

To encourage the improvement of the product and the package.

To increase the consumption of citrus fruit by developing new markets and to aid in supplying all the people with good fruit at a reasonable price.

To secure a fair and just government of all bodies affiliated with these parties, democratic in principle and through which at all times all policies shall be controlled by the majority will of the shippers connected therewith in just proportion to shipments made. That the business engaged in, being interstate in character, to secure at all times full compliance with the laws of the United States concerning Interstate Commerce, and to that end prevent any organization connected therewith from having any power or authority in contravention of the laws of the United States concerning such business. The general plan being to unite in securing those results which are beneficial to all alike, but at the same time preserving to each shipper complete independence of action as to all of his shipments. Thereupon the following stipulations are agreed to in lieu of all previous agreements.

First: The party of the first part shall be considered the general agent of all the parties of the second part in all matters concerning the marketing of citrus fruit, and such other matters as are incident thereto within the limitations hereinafter provided, with power to provide a suitable place for doing business.

To elect or appoint a suitable official force to supervise the business, at such salaries as may from time to time be considered proper by the directors of the party of the first part.

To employ a force of sales agents stationed at various points throughout the United States, Canada, and such other countries as may be decided upon as will be sufficient to dispose of the products of the second parties in all available territory.

To organize and maintain a claim department for the handling of all claims.

To maintain a legal department to take care of the necessary litigation, and furnish advice to the various organizations connected herewith.

To maintain an advertising bureau for the purpose of stimulating consumption and demand.

To create any other department, or incur any other expense which may be deemed necessary by the Board of Directors of the party of the first part to protect all those interests of the parties of the second part of a general nature, and which will affect all alike, within the scope of the duties of the first party as herein provided.

COOPERATION

It is agreed that all of the information obtained by the party of the first part; all of the facilities established by it; all of the books or records maintained by it; all of the Agencies, both general or local, shall always be at all times available to the second parties, or their accredited representatives.

The second parties will at all times cooperate for whatever object may, within the law, be deemed to be for the general good. They will each and all abide by and be bound by all the contracts, agreements and sales made by the party of the first part for any member of such organization, and will promptly ratify any action taken by the part of the first party, or any of its authorized agencies in behalf of any or all of the parties of the second part within the scope of the authority of such agencies.

LIFE OF AGREEMENT

This agreement shall be effective September 1, 1920, and shall continue in force and effect until the first day of September, 1940, and during that period the parties of the second part and all associations, corporations, partnerships or individuals connected with such second parties, or shipping through such second parties, or any of them, will ship all their citrus fruits through the party of the first part and the marketing agencies by it established, and for such period of time will consign all shipments to the party of the first part at some point where the said party of the first part has representation, through and by the local exchange with which each association is affiliated; provided, however, that any party to this agreement may withdraw therefrom on the first day of September of any year, and be no longer bound by the stipulations herein agreed upon, by filing a written notice of withdrawal with the party of the first part, ten days or more before any such date, and each of said parties of the second part agrees that if it shall at any time during the life of this agreement fail to ship all its citrus fruits as hereinbefore agreed upon, or shall dispose of all or any of it elsewhere, or otherwise than as herein agreed upon, that it will forfeit and pay as liquidated damages to the party of the first part, an amount equal to twenty-five cents a box on all such citrus fruits which are, or may be shipped or sold otherwise than as stipulated in this contract, providing the first party was ready and willing to receive and handle such fruit.

RESERVED RIGHTS OF SHIPPERS

It is understood, however, that each shipper reserves to itself the right to regulate and control its own shipments, to use its own judgment, and decide for itself when and in what amounts it shall ship; to what markets it shall ship; where its products shall be sold, and, except at auction points,

the price it is willing to receive, fully reserving the right of free competition with all other shippers, including other members of this organization, unhampered and uncontrolled by any one.

EXPENSES

First: All fruit, however sold, shall be assessed alike per box in proportion to the Carriers' estimated weight to pay salaries and expenses of the General Manager, Division Managers, and their assistants and all employees, rents and expenses of the Los Angeles Office of the party of the first part, including all telegrams and general items of expense, such as printing, supplies, inspection of fruit, etc.; also to pay the expense of establishing a Claim Department for the purpose of making and collecting claims against Railroad Companies and other corporations and individuals, including the salary of a Claim Agent and all necessary assistants and clerks and all other necessary expense; also to pay all necessary legal expenses, including salaries of one or more attorneys for necessary legal advice and all legal expenses necessary to prosecute claims and suits in courts, both Federal and State, and before the Interstate Commerce Commission; also to pay all expenses of proper and judicious advertising for the purpose of extending and increasing the sale of the citrus fruit of the parties of the second part; also to pay all proper expenses of extending the sale of said fruit in foreign countries, and all other necessary and proper expense that may be incurred in protecting and furthering the interests of the said parties of the second part, excepting that fruit sold by the local Exchanges at their expense and risk, either at auction or at private sale, at such points as the Board of Directors may from time to time determine, shall be excluded from these charges and assessed an arbitrary charge to be fixed by the Board of Directors of the party of the first part.

Second: All fruit sold, at auction or on commission, except as hereinbefore provided, shall, in addition to expense named in first paragraph, be assessed alike per box in proportion to Carriers' estimated weight, to pay the salaries and expenses of Agents, Inspectors, and other expenses as may accrue in auction agencies.

All auction and commission charges shall be borne by the respective shipments and deducted from the proceeds of sale of each car or shipment.

Third: All fruit sold otherwise than herein provided shall, in addition to expense named in first paragraph, be assessed alike per box in proportion to Carriers' estimated weight, to pay all expenses connected with the marketing of the same not provided for in subdivision No. 1 of this article, including all salaries, brokerages, office and incidental expenses of the various agents (not including auction agency expenses).

ASSESSMENTS

The said party of the first part shall make a statement within thirty days after the first day of September of each year, and a readjustment of

such statement once a month, covering all shipments for that season, made up to the time of the statement or readjustment, and levy an assessment on the parties of the second part according to the number of boxes shipped. Such assessment shall be due within three days from date on which it is made. In the event of failure to pay any such assessment within ten days from its date, the party of the first part may refuse to handle any fruit for the delinquent party until all assessments past due have been paid.

BONDS OF AGENTS

Agents shall be selected and employed by the party of the first part, on salaries or brokerage, and each shall be required to furnish a satisfactory bond in some responsible guarantee company for the faithful performance of his duties.

INFORMATION AS TO PRICE

The party of the first part shall require its agents to keep it fully informed as to the condition of the market, the arrival and condition of the fruit, the wholesale and retail prices of fruit in their respective districts, and furnish such other information as may be required of them, and such information shall be immediately transmitted by said party of the first part to all the parties of the second part.

QUOTATIONS BY SECOND PARTIES

No schedule of prices or quotations shall be issued or be distributed by any of the parties of the second part, except through the party of the first part.

NO SPECIAL AGENTS

None of the parties of the second part shall employ any traveling man, agent or solicitor for the sale of its fruit.

COPIES TO SECOND PARTY

Copies of all correspondence or other matters in any manner affecting the interests of the parties of the second part shall be promptly forwarded by the respective agents to the parties of the second part whose interests are involved.

MONEY DIRECT TO SECOND PARTIES

The party of the first part shall cause the fruit furnished by said several parties of the second part to be sold for the account of the party of the second part furnishing the fruit, and full report and account sales shall be promptly rendered therefor, and payment of money made direct to the party of the second part shipping such fruit, and a copy of the account sales shall be rendered to the party of the first part.

ESTIMATES

Each of the parties of the second part shall furnish to the Secretary of the party of the first part an estimate of the number of cars of each variety of fruit controlled by said second party as often as called for by the Board of Directors of said first party.

RESPONSIBILITY OF FIRST PARTY

The party of the first part agrees to use its best efforts to sell, market, and dispose of the fruit belonging to said parties of the second part, as aforesaid, but it is expressly agreed between the parties hereto that the said party of the first part in the sale and disposal of said fruit acts only as an Agent of the said parties of the second part and shall not be held liable for any loss that may result in disposing of such fruit, except as herein provided.

PROVIDED, HOWEVER, that the party of the first part in the selling, marketing, and disposing of the said fruit shall have the right to establish one or more grades or brands and to prescribe the standards of quality and pack of fruit to be marketed under such grades or brand, and to permit the parties of the second part to market their fruit under such grades or brand upon compliance by such parties of the second part with the rules and regulations so established.

LOSSES

The only losses assumed by the party of the first part are those arising from financial failures or default of purchasers after having positively accepted the fruit, and which default is not due to complaint of the buyer of the quality, condition or grade of the shipment, and these losses shall be assessed to the parties of the second part upon a percentage based upon the gross f.o.b. returns for the year.

CLAIMS

The party of the first part shall maintain a claim department for the collection of all claims against railroads and transportation companies, and at the request of any of the parties of the second part, the party of the first part shall to the best of its ability collect and prosecute on behalf of the party in interest any claim for overcharge or loss and damage not herein provided for, and also, upon the approval of its Board of Directors, bring suit and prosecute the same in the courts, all at the expense of the party of the first part.

INTERESTS OF PARTIES

All matters of business involving the interests of the parties hereto not herein specified, shall be determined by the said party of the first part, or

by a meeting of representatives from said parties of the second part, as hereinafter provided.

BOARD OF REPRESENTATIVES

To aid in carrying out the provisions of this agreement, a Board of Representatives is hereby created, to which each of the Exchanges, parties of the second part, shall be entitled to appoint one representative, to hold at the pleasure of the appointing party, such party having the right to remove or change its representative at any time; provided, that all appointments, removals and changes shall, by the party making the same, be certified in writing of the party of the first part, and shall take effect when so certified. The representatives so appointed shall constitute such board, and its due organization and powers shall not be affected by the failure of any party to make or certify its appointment of a representative. The President of the California Fruit Growers' Exchange shall be *ex-officio* chairman of said Board, but in case of his absence or failure to perform his duties as such chairman, the Board shall elect a chairman for the time being. The Board shall elect its own Secretary, who shall keep a record of its proceedings.

Meetings of said Board of Representatives shall be immediately called by the acting Secretary of the Board of Directors of the California Fruit Growers' Exchange at the request of any two members of said Board. Said meetings shall be held in the office of the party of the first part at eleven o'clock A.M. on the next regular meeting day of the Board of Directors of the party of the first part. Notice of said meetings to be given to all the representatives of the parties of the second part by notice through the United States Post Office, mailed on the day of calling such meeting. Representatives of a majority of the total shipments of the previous season at any meeting called as herein provided shall constitute a quorum.

Said Board shall have the supervision of all matters pertaining to carrying out the provisions of this agreement, as advisory to the Board of Directors of the party of the first part; and upon request of any two members of said Board of Directors, any question as to carrying out any of the provisions of this agreement shall, by said Board of Directors, be referred to said Board of Representatives.

At any meeting of said Board of Representatives, upon demand of any representative, the vote on any question under consideration shall be taken upon a percentage basis, in which case each representative shall have the same percentage of the total vote as the party appointing him shipped of the total of all fruit shipped by the parties of the second part hereto for the year ending August 31st last prior to said meeting.

When any vote on any question pertaining to the carrying out of any provision of this agreement shall have been taken by said Board of Representatives, the fact of such vote and the result shall be certified to the Board

of Directors of the party of the first part and the California Fruit Growers' Exchange shall take notice of the result of such action as instructions from the second parties to the contract and carry on the business as directed by such vote of the representatives of said second parties.

PARTIES MAY SIGN SEPARATE INSTRUMENTS

This agreement may be executed in one or more parts, and each part shall be deemed an original, and all parts together shall constitute one original instrument.

ASSOCIATIONS' AND GROWERS' CONTRACTS

Each party of the second part agrees to furnish to the party of the first part a copy of the contracts between associations and growers or the local exchange and the growers or associations, each of which contracts shall in terms ratify this agreement.

IN WITNESS WHEREOF, The said corporations have each hereunto caused its corporate name and seal to be affixed by its President and Secretary thereunto duly authorized by resolution of its Board of Directors duly passed and adopted.

CALIFORNIA FRUIT GROWERS' EXCHANGE

Actual Date of Signing.......................

(SEAL) By ....President
By ....Secretary

....

(SEAL) By ....President
By ....Secretary

AGREEMENT BETWEEN DISTRICT EXCHANGE AND LOCAL ASSOCIATION

THIS AGREEMENT, made and entered into this .... by and between the ...., a corporation duly organized and existing under the laws of this State, with its principal office in ...., California, the party of the first part, and the other corporations and parties who sign this agreement, the parties of the second part.

WHEREAS, the system of marketing and handling citrus fruits devised by the California Fruit Growers' Exchange has been approved by the parties hereto as a satisfactory system of cooperative marketing; NOW, in consideration of the foregoing, the parties of the second part do hereby severally agree to market all fruit now controlled by them or that may hereafter come under their control during the term of this agreement through said

first party, it being understood and agreed that the said party of the first part has entered into an agreement with the California Fruit Growers' Exchange for the sale of said fruit in accordance with the general plan adopted by said Exchange, to which plan and agreement reference is hereby made, and the same is hereby made a part of this agreement.

The said party of the first part is hereby authorized to retain from the net proceeds rendered to it by the agents of the California Fruit Growers' Exchange, or from any other sales of fruit under this agreement, such sum of money as their Board of Directors may from time to time designate or deem sufficient to cover the expenses incurred in making such sales. Should the actual expenses incurred by the said party of the first part during the term of this agreement amount to less than the fund so retained, then the surplus shall be refunded to the said parties of the second part, according to the number of boxes of fruit shipped by each, the Board of Directors adjusting the refund upon an equitable basis. Should the actual expenses incurred by the said party of the first part during the term of this agreement amount to more than the fund so retained, then the said parties of the second part agree to pay an assessment to be levied upon them to make up the amount of the deficiency, said assessment to be levied upon the number of boxes shipped by each of the said parties of the second part, but oranges, lemons and other citrus fruit, as well as auctions and agents' sales, may be assessed on a separate basis, and for different amounts.

PROVIDED THAT, whatever difference, if any, is made by the California Fruit Growers' Exchange in its charges for marketing oranges, lemons and other citrus fruit, respectively, shall be followed and carried out in the adjustment of moneys retained by the party of the first part from the said parties of the second part.

The party of the first part agrees to use its best efforts to sell and dispose of the fruit controlled by the said parties of the second part, but it is expressly understood that in so doing it acts only as the agent of the said parties of the second part, and assumes no responsibility or financial liability therefor further than it agrees to turn over to the several parties of the second part, the cash proceeds of all sales of their fruit as soon as received, retaining the brokerage for expenses, as above provided.

Each of the parties of the second part further agrees to pay to the party of the first part as liquidated damages the sum of 25 cents a box on all citrus fruits controlled by it, which, through any fault of its own, it fails to deliver to the party of the first part, loaded on cars at shipping station of said party of the second part.

This agreement shall be effective September 1, 1920, and shall continue in force and effect until the first day of September, 1940; provided, that any of the parties hereto may withdraw from and cancel this agreement during the first fifteen days of August in any year, by giving notice in writing during said period to the party of the first part.

This agreement may be executed in one or more parts, and each part shall be deemed an original, and all parts together shall constitute one original instrument.

In witness whereof, the said corporations have each hereunto caused its corporate name and seal to be affixed by its President and Secretary duly authorized by resolution of its Board of Directors, duly passed and adopted, and all other parties have hereunto signed their individual names and affixed their individual seals.

....

(seal) By ....President
By ....Secretary

....

(seal) By ....President
By ....Secretary

CERTIFIED COPY OF RESOLUTION AUTHORIZING DISTRICT EXCHANGE TO EXECUTE THE FOREGOING AGREEMENT

Whereas, it is to the best interests of this District Exchange to enter into an agreement entitled, "Agreement between District Exchange and Local Association," made as of and dated the .... wherein this District Exchange is the party of the first part, and other corporations and parties who sign this agreement (being local associations affiliated with this District Exchange) are parties of the second part; and,

Whereas, the Secretary presents to this meeting a draft of this proposed agreement, a copy of which is hereinafter set forth in this resolution;

Now, therefore, be it resolved, That the President or Vice-President, and the Secretary or Assistant Secretary, of this corporation be, and they are hereby authorized, empowered, and instructed, for and on its behalf, in its name, under its seal, and as its corporate act and deed, to execute said agreement in one or more original parts, and to deliver the same to the other parties thereto;

The draft of said proposed agreement hereinbefore referred to is as follows, to wit:

(In said resolution here follows an exact copy of the foregoing agreement, except only as to the signatures of officers of the respective parties thereto.)

I, the undersigned, as Secretary of the undersigned corporation, hereby certify that the foregoing is a full, true and correct copy of the resolution of the Board of Directors of said corporation (except only as to copy of agreement in said resolution set forth, and that the agreement to which this

certified copy of resolution is attached is a full, true and correct copy, without addition of signatures, of the contract which was contained and set forth in said resolution), adopted at a meeting of said Board of Directors, duly and regularly called, noticed and held at the office of the corporation at its principal place of business at ...., California, on the .... day of ...., 192...., at which meeting a quorum, to wit, a majority of said Board of Directors, were present and voting; that said resolution was adopted by the unanimous vote of the Directors present at said meeting, and that the same has been recorded in the minutes of said meeting and is now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of said corporation, this .... day of ...., 1920.

(CORPORATE SEAL) ....

..................Secretary of

....

(a corporation)

CERTIFIED COPY OF RESOLUTION AUTHORIZING AN ASSOCIATION TO EXECUTE THE FOREGOING AGREEMENT

WHEREAS, it is to the best interests of this Association and its growers to enter into a certain agreement entitled, "AGREEMENT BETWEEN DISTRICT EXCHANGE AND LOCAL ASSOCIATION," made as of and dated the .... wherein .... DISTRICT EXCHANGE is the party of the first part, and other corporations and parties who sign the agreement (being local associations affiliated with said District Exchange) are parties of the second part; and,

WHEREAS, the Secretary presents to this meeting a draft of this proposed agreement, a copy of which is hereinafter set forth in this resolution;

NOW, THEREFORE, BE IT RESOLVED, That the President or Vice-President, and the Secretary or Assistant Secretary, of this corporation be, and they are hereby authorized, empowered, and instructed, for and on its behalf, in its name, under its seal, and as its corporate act and deed, to execute said agreement in one or more original parts, and to deliver the same to the other parties thereto;

The draft of said proposed agreement hereinbefore referred to is as follows, to wit:

(In said resolution here follows an exact copy of the foregoing agreement, except only as to the signatures of officers of the respective parties thereto.)

I, the undersigned, as Secretary of the undersigned corporation, hereby certify that the foregoing is a full, true and correct copy of the resolution

of the Board of Directors of said corporation (except only as to copy of agreement in said resolution set forth, and that the agreement to which this certified copy of resolution is attached is a full, true and correct copy, without addition of signatures, of the contract which was contained and set forth in said resolution), adopted at a meeting of said Board of Directors, duly and regularly called, noticed and held at the office of the corporation at its principal place of business at ...., California, on the .... day of ...., 192...., at which meeting a quorum, to wit, a majority of said Board of Directors, were present and voting; that said resolution was adopted by the unanimous vote of the Directors present at said meeting, and that the same has been recorded in the minutes of said meeting and is now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of said corporation, this .... day of ...., 1920.

(CORPORATE SEAL) ....

.................Secretary of

....

(a corporation)

MEMBERSHIP AGREEMENT

(Used by many associations in Minnesota)

THIS AGREEMENT, made this .... day of ...., 192...., by and between the .... Cooperative Egg and Poultry Producers' Association, a non-stock, non-profit association, party of the first part, organized under the Minnesota state law, known as "The Cooperative Marketing Act of 1923," hereinafter referred to as the Association; and, the undersigned poultry producer, party of the second part, hereinafter referred to as the Member.

WITNESSETH:

1. The undersigned producer hereby becomes a member of the .... Cooperative Egg and Poultry Producers' Association and agrees:

(*a*) To pay an initial membership fee of $3.

(*b*) To deliver and sell all his marketable surplus eggs and poultry which he may produce (except such eggs as may be suitable for hatching and actu-

ally used or sold for incubation, or poultry raised and sold for breeding stock, or sales direct to a consumer by the Member), to the Association during the years 19.... (after ....), 19...., 19...., 19...., 19...., unless a written notice is given by either party within a period of thirty (30) days prior to any annual meeting, after the first and second, or in case of the Member's death or removal from the area of the Association, and the term poultry as used herein shall be understood to include and embrace chickens, turkeys, ducks, and geese.

(*c*) To observe such rules for the care and delivery of eggs and poultry as may be prescribed by the Association and that all deliveries to the Association shall be graded and merchandised by the Association or such parties as it may designate. The eggs and poultry delivered hereunder shall become the absolute property of the Association.

(*d*) In case the Member violates this agreement in any way by failing to deliver his product or otherwise, the producer hereby agrees to pay the Association for all eggs and poultry delivered, so consigned, withheld or marketed by or for him, other than in accordance with the terms hereof, the sum of 5 cents for each dozen eggs, $1 for each dozen chickens, $3 for each dozen turkeys, as liquidated damages for breach of this contract as specified in Section 5 of the by-laws.

(*e*) To abide by the articles of incorporation and by-laws of the Association, which by-laws are hereby made a part of this agreement.

2. The Association agrees:

(*a*) To buy eggs and poultry and provide facilities for handling the same to best advantage.

(*b*) To assemble, grade and market same in any manner deemed by the directors most advantageous in improving the quality and market demand.

(*c*) To pay over to the producers the amount received for the eggs or poultry as payment in full according to the quantity in the different grades delivered to the Association and the Association is hereby authorized to deduct the actual handling and selling expenses plus not to exceed one cent per dozen on eggs or per pound on poultry, or both, which shall accrue in a reserve fund as per Section 5 of the by-laws.

(*d*) To perform any other services within the function of the Association, separately or in conjunction with other similar cooperative associations, as determined by the directors, who shall when fifteen similar associations are organized unite and form the Minnesota Egg and Poultry Exchange.

3. At its discretion the association may temporarily defer starting the poultry-marketing work until the egg-marketing work is well established.

This agreement shall not be binding until enough members have joined to insure sufficient volume to make the work economical and practical as determined by the directors of the Association, written notice to be sent as to the date from and after which his said products are to be delivered to the Association.

IN WITNESS WHEREOF, we have set our hands and seal the day and date first above written.

.................COOPERATIVE EGG AND POULTRY PRODUCERS' ASSOCIATION

(SEAL)

....................................Secretary

....................................President

....................................Member

Witness for:

Association...........................

Member...........................

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